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**STRATEGIC LEADERSHIP AS A POTENTIAL SOURCE OF  
COMPETITIVE ADVANTAGE FOR NAMIBIA BREWERIES  
LIMITED IN THE FACE OF GLOBALISATION**

**BY**

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## **CONFIDENTIALITY**

The information herein will by no means be for public consumption due to the strategic importance of this research. The contents will therefore remain confidential and not be circulated for a period of five years.

## DECLARATION

I declare that this research study is my own unaided work and all the references used or quoted have been acknowledged by means of references.

I further declare that this research has not been previously accepted for any degree and is not being currently submitted in candidature for any other degree.



Ivondia U. Kanguuehi



Date

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## **DEDICATION**

This report is dedicated to Gad and my ‘unborn children’ for your sacrifice, love and support.

## ABSTRACT

The present landscape presents numerous challenges for the firms operating in this 21<sup>st</sup> century arena, as it is quite volatile. This landscape is global in nature, as the barriers to competition have been broken down between countries.

The challenges of the global economy are immense. Strategic leadership emerges as the most effective way through which firms can achieve satisfactory performance in this competitive landscape. As companies attempt to sustain competitive advantage so as to maintain strategic competitiveness and earn above average returns, they need to practice effective strategic leadership.

The aim of this paper is to establish how firms could use effective leadership to ensure that they are able to deal with the challenging situations facing them. Only through this, can they respond appropriately and quickly in the complex global competitive environment.

The challenges facing companies of the 21<sup>st</sup> century will be identified. Namibia Breweries Limited will be used as a case study of a firm in the developing world currently facing enormous challenges due to globalisation. Various analytical tools will be used to determine the company's competitive position. Also, the company's competitiveness will be evaluated against that of its major competitor, South African Breweries.

The role strategic leadership could play to enable Namibia Breweries Limited to maintain competitiveness while facing the challenges of globalization will be established. The model by Hitt, Ireland, and Hoskisson will be adopted. These authors have come up with a model that highlights six critical components for effective strategic leadership. When a company's leadership effectively complete the activities called for by these components, they can become a source of competitive advantage. Furthermore, strategic leadership can be a source of competitive advantage for firms when competitors find it difficult to understand and imitate the processes involved with it.

This advantage is significant, as it would enable firms to achieve strategic competitiveness. The study will establish how Namibia Breweries Limited could implement these components to achieve effective leadership, given their particular environment and the particular challenges facing them.

Recommendations are made on how Namibia Breweries Limited can implement the components to improve on its competitiveness, using the proposed model. Suggestions are made with regard to what the company could do to ensure they maintain a good strategic position.

The analysis indicates that the company, Namibia Breweries Limited, faces a giant in the industry. The South African Breweries presents major competition to the Namibian breweries and the leadership has a big role to play to ensure that the company maintains strategic competitiveness and is able to earn above average returns despite the major challenges it faces.

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## **ABBREVIATIONS**

AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
BSC	Balanced Scorecard
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
FAD	Flavored Alcoholic Drinks
FYE	For Year Ended
GATT	General Agreement on Tariffs and Trade
GMO's	Genetically Modified Organisms
HIV	Human Immune-deficiency Virus
JVB	Joint Venture Brandhouse
LSM	Living Standard Measures
NAD	Namibian dollar
NAMBREW	Namibia Breweries
NBL	Namibian Breweries Limited
NBIHL	Namibia Breweries Investment Holding Limited
NEPRU	Namibian Economic Policy Research Unit
NSE	Namibia Stock exchange
PEST	Political, Economical, Social and Technological
ROE	Return On Equity
ROTA	Return On Total Assets
ROI	Return On Investments
SA	South African
SAB	South African Breweries
SABMiller	South African Breweries and Miller
SACU	Southern African Customs Union
SADC	Southern Africa Development Community
SWB	South West Breweries

SWOT	Strengths, Weaknesses, Opportunities and Threats
ZAR	South African Rand

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## **CHAPTER 1: INTRODUCTION**

### **1.1 Introduction**

Companies today operate in dynamic and volatile competitive environments. The competition facing the 21<sup>st</sup> century firm is complex, challenging, and filled with competitive opportunities and threats.

The creation of competitive advantage is the universal objective of all companies, as this would enable them to earn superior returns on investments.

Technological changes are occurring at a very fast pace and as a result, the nature of strategy is being transformed. Managers and leaders face major strategic discontinuities that are changing the nature of competition. Ways that were effective in the past are found to be futile, and new approaches have to be developed.

The challenge to firms today is to achieve and maintain strategic competitiveness amidst the circumstances facing them. Various authors concur that only through effective strategic leadership can firms confront the challenges that are facing firms in this landscape. Effective strategic leadership can help firms enhance performance while competing in these turbulent and unpredictable environments.

“Leaders must understand trends and competitive opportunities if they are to ensure that their firms are effectively positioned for the long term” (Lippit, 2003:24). Also, the uncertainty, ambiguity, and discontinuity challenges firms and their strategic leadership to increase the speed of the decision-making processes through which strategies are formulated and implemented (Ireland and Hitt, 1999).

The employment of strategic leadership for the effective management of Namibia Breweries Limited will therefore be examined in this study, with the aim of proposing a model that the company could use to ensure that they remain competitive.

## 1.2 Background of research

For organizations to survive, they must be able to achieve organizational success. This can only be done by putting strategies in place that are in accordance with the environment that they find themselves in. The 21<sup>st</sup> century is characterized by a dynamic internal and external environment. “The global context to business has created a borderless and boundary-free world” (Denton & Vloeberghs, 2003:85, citing Goodman), bringing with it international competition. Hence, globalisation has brought about rapidly changing conditions, as well as challenges for companies in all industries.

Organizations must be able to manage change in the dynamic and competitive environment they are in (Thomson, 1996). The world arena is not static and is a continuously changing environment. Hence, in this turbulent environment, change has become the focus of business strategies.

Various studies have been done on the topic of leadership and its impact on organizational success. According to Higgs (2003) in recent times, the area of leadership has been studied more extensively than any other aspect of human behaviour. He maintains, however, there appears to be still little to be known about what constitutes effective leadership. Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) defines leadership as “the process through which leaders influence the attitudes, behaviours and values of others”. Strategic leadership is the leader's “ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary” Hitt et al. (2003:386). According to Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) who has done research on the concept of leadership, there has been no attempt in the literature to distinguish between leadership and strategic leadership. Little in the literature delineates between strategic leadership and just leadership in the purest of terms. Much emphasis is, however, laid on differentiating between leadership and management.

Put simply, strategic leadership involves committing the total organization to a given course and making the strategic decisions that will keep it on that course. Hence, the



challenge today is to ensure competitive success in a fast-changing business environment, through proper performance of the strategic leadership role.

There is agreement that strategic leadership is critical to achieving individual and organizational effectiveness and success in the rapidly changing, increasingly globalized business environment. Firms use the strategic management process successfully through effective strategic leadership (Hitt and Keats, cited by Hagan et al. 1998). Understanding of this concept is therefore very crucial for all organizations. However, trying to define the entire scope of this is hard as it is a broad, difficult concept. It is a complex and multifaceted term.

Authors who have made a valuable contribution to the field and so are often quoted in literature are Hitt, Ireland, and Hoskisson (2003) in their book 'Strategic Management: Competitiveness and Globalisation'. They articulated that leaders have a big role to play for organizations to achieve organizational success. Other authors are in agreement that organizations can achieve competitive advantage over their competitors by practicing strategic leadership (Beatty, K and Quinn, L 2002). Hitt et al. (2003) developed a framework for strategic leadership, with six critical components essential for effective leadership. Hagan, Hassan and Amin have done a study using the components, which was published in a 1998 article in SAM Advanced Management Journal (Hagan et al. 1998). It was found that the suggested components are the most critical, in effective leadership. Therefore this framework will be adopted as a model for the purpose of researching the way Namibia Breweries Limited can use strategic leadership to ensure that they achieve competitive advantage over their competition amidst the challenges that they face.

### **1.3 Motivation for the research**

The global wave of the 21<sup>st</sup> century brought about many challenges. A company's success depends on how it manages the challenges accompanying globalisation. Companies therefore need to put strategies in place that would enable them to constantly stay ahead of the competition in order to earn above average returns. Effective leadership is paramount in developing these strategies.

Namibia Breweries Limited (NBL), which is currently a monopoly in Namibia, will start facing more competition from other players as borders open up due to globalisation. As it is, the South African Breweries (SABMiller) is attempting to open a branch in Northern Namibia.

The concern is whether the company is in a competitive position to face these challenges.

The research would determine NBL's competitive position, and thereafter establish what the company could do in order to ensure that they maintain competitiveness in the face of fierce competition from SABMiller. It will look at the extent that strategic leadership could enable the company to take strategic actions that would culminate in strategic competitiveness and above-average returns.

The research therefore, aims to establish how the company could use various components of effective leadership to ensure that their leadership is able to deal with the diverse and cognitively competitive situations facing them, so as to respond appropriately and quickly in the complex global competitive environment.

#### **1.4 Value of the project**

The findings of the research will enable NBL, as well as other companies in Namibia and the developing world, to recognize the challenges they face. It will also ensure that they are in a competitive position so as to be able to put strategies in place to ensure that they are not caught unawares.

This study will also attempt in particular to bring to light what role strategic leadership could play to enable companies to remain competitive amidst the challenges. The Namibian Breweries will be used as a case study with the hope that some generalization may be drawn at the end of the study to equip today's businesses and in particular in the developing world to maintain competitiveness in the face of globalisation.

## **1.5 Problem statement**

With this background, using Namibia Breweries as a case study, the research question that will be answered in this paper is:

To what extent can strategic leadership enable Namibia Breweries Limited to deal with the challenges brought about by globalisation, so that they can maintain strategic competitiveness and earn above average returns?

## **1.6 Objectives of the study**

- To identify the challenges facing companies of the 21<sup>st</sup> century, due to globalisation.
- To determine NBL's competitiveness.
- To establish the extent to which strategic leadership could enable NBL to maintain competitiveness while facing the challenges of globalisation.
- To establish how NBL could implement the framework for strategic leadership, identified by Hitt et al. 2003, given their particular environment and particular challenges facing them.

## **1.7 Research Methodology**

This section will look at how the research will achieve the objectives of the study.

### ***1.7.1 Research design***

Every researcher must make the strategic choice to come up with an approach that enables him or her to answer the research problem in the best possible way, the choice of a research design. Ghauri and Gronhaug (2002:47) define research design as the "overall plan for relating the conceptual research problem to relevant and practical empirical research." Choosing the research design is important, as it is the overall strategy to get the information that is wanted or needed for the research.

This research paper involves exploring existing theory, thus, how the company operates. The exploratory nature of the study, coupled with the theoretical framework of strategic leadership therefore necessitates a qualitative approach. A case study method will be used to answer the research question. Robson (in Saunders et al. 2003:93) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”.

NBL, a Namibian brewery company, will be looked at. The current situation of the company will be studied, concentrating in particular on its competitiveness. Furthermore, the leadership of the company and specifically the way the leadership contributes to the effective use of the company’s strategies will be examined, using the model adopted (by Hitt et al. 2003). The findings will then be compared with existing theory and suggestions made to the company.

### ***1.7.2 Research Approach***

Choosing the research approach depends on the researcher’s clarity about the theory at the beginning of the research. In this case, the deductive approach would be used. Thus, a clear theoretical position would be developed prior to the collection of data. The framework by Hitt et al. (2003), together with other relevant theory on the subject will be used to test data. The theory will therefore be used to look at NBL and establish how competitive they are in the light of this framework.

### ***1.7.3 Data Collection Methods***

The choice of data collection depends upon an overall judgment on which type of data is needed for a particular research problem (Ghauri and Gronhaug, 2002). Data collection methods to be used for this research will be secondary data and documentary analysis.

#### **Secondary data**

Literature available from various sources regarding the issue will be explored. These include books, journals, articles, newspapers, and Internet references.

Documentary analysis

This includes reports from different departments, company policies and procedures, and information on management structures and employees.

## **1.8 Limitations**

Time constraints are a limitation that led to an analysis that is not comprehensive enough, as the time allocated for the study was short due to the limited time available to complete the study for degree purposes.

The uniqueness of only one firm studied makes generalizing to a larger pool of organizations suspect. Further research would be required to determine if the relationships noted in this study are similar in a wider range of firms.

## **1.9 Summary**

This chapter has stipulated the context of the paper. It showed what methodology has been used to do the research. The study has been conducted within the qualitative paradigm, and a case study method has been used. The chapter also looked at the background of the research, the motivation for, and the value of the study, as well as limitations of the study.

The next chapter (chapter2) looks at the literature on the subject of leadership as an essential tool for companies of the 21<sup>st</sup> century if they are to remain competitive. A model will be adopted that will form the basis of the research. Chapter 3 looks at the company that was used as a case study for the paper, Namibia Breweries Limited. Chapters 4 and 5 consecutively look at the tools that will be used for analysis as well as the actual analysis. Chapter 6 is the final chapter and gives the recommendations and conclusions.

## CHAPTER 2: REVIEW OF THE LITERATURE

### 2.1 Introduction

Successful companies are those that focus their efforts strategically ([http://www.1000ventures.com/business\\_guide/mgmt\\_inex\\_strategy.html](http://www.1000ventures.com/business_guide/mgmt_inex_strategy.html)). Beatty and Quinn (2002:6) defines strategy as “the patterns of choices made to achieve a sustainable competitive advantage”. It is the ability of an organization to think and behave strategically. According to Mintzberg (cited by Graetz, 2002), strategy is a plan, a ploy, a pattern, a position, and a perspective. To meet and exceed customer satisfaction, the company needs to follow an overall organizational strategy. Companies thus need to successfully use the strategic management process in order to ensure that they remain competitive.

Companies today are faced with severe global competition. It is relentless and constantly growing and because companies cannot withstand, they need to arm themselves by putting strategies in place that enable them to stay ahead. They also need to be flexible to respond rapidly to competitive and market changes. As Porter (1996) puts it, a company may have to change its strategy if there are major structural changes in its industry.

Strategic leadership is key to this as it enables organisations to take strategic actions that enable the company to respond effectively to the dynamic environment. It is multifunctional, involves managing through others, and helps organizations cope with change that seems to be increasing exponentially in today's globalized environment.

Strategic leadership focuses on the choices that enhance the health and well being of organizations over the long term. It emerges in processes of strategic decision-making, which would enable the company to take successful strategic action, and thus remain competitive and earn above average returns. Because they have decision-making responsibilities, strategic leaders have significant influence on the direction of the firm (Hitt et al. 2003, Vera and Crossan, 2004).

Understanding and exercising strategic leadership is one of the biggest challenges of today's organizations. Because strategic leadership is the answer to these companies, in order to be successful, they need to be involved in processes of developing strategic leaders. Kotter (1999) said that successful corporations do not wait for leaders to come along, but actively seek out people with leadership potential and expose them to career experiences designed to develop that potential.

Rowe (2001) also added that companies need to let managers develop the skills and abilities required to exercise strategic leadership. However, strategic leadership is a complex and multifaceted concept and although it is critical, understanding it has been an impossible task.

According to Boal and Hooijberg (2001), leaders should ensure that their companies' products continue to improve in quality and continue to meet customer expectations. They also need to understand how technological advances in related, as well as not-so-related areas, can impact their organizations. Hence, leaders at the strategic apex of companies need to have a solid understanding of the environment within which their organizations function.

This chapter will attempt to build an argument as to why strategic leadership is the key to success for the company of the 21<sup>st</sup> century. It will provide a brief look at the concept of strategy and what it entails. The link between strategy and leadership will then be explored before a detailed look into the concept of leadership, which is the core of the chapter. The 21<sup>st</sup> century competitive landscape will also be looked at, as well as the challenges brought about by this landscape.

## **2.2 What is Strategy?**

Bateman and Snell (2004:112) define strategy as a "pattern of actions and resource allocations designed to achieve the goals of the organization". In Proctor's viewpoint the corporate strategy of a business "reflects its objectives and goals, usually set within a time framework, and specifies the main policies and plans for attaining those goals" (1997:143). Strategy thus defines the nature of the organization's business fidelity.

There is no single universal definition of strategy. Various authors view strategy differently and thus come up with different definitions. They all agree, however, that it is about choices, choosing what to do and what not to do (Thompson, 1998). This requires thinking, awareness and vision.

Literature indicates that the strategy field as a self-conscious discipline is just over 40 years old.

The strategies an organization implements are an attempt to match the skills and resources of the organization to the opportunities found in the external environment, and should be directed toward building strengths in areas that satisfy the wants and needs of consumers and other key factions in the organization's external environment. There is no point in trying to exploit opportunities if the resources needed are not available or cannot be made available.

According to an essay published on [antiessays.com](http://www.antiessays.com) (<http://www.antiessays.com/essay.php?eid=221>) strategy basically deals with three questions; 'Where are we today?' 'Where do we want to go?' and 'How will we get there?' Strategy makes a bridge between these three questions. Normally, strategy is designed by top management and implemented by the operational management.

Since the environment constantly changes, strategy involves coping with change. The extent and speed of environmental change will vary and the pace at which strategy must change will vary too (Proctor, 1997). When company performances deteriorate, changes to strategies, structures or management styles can be anticipated. As Thompson (1998) puts it, however, it might be advantageous for successful companies to introduce changes while they are still successful and before environmental and competitive changes force them into a reactive mode. Organizations must always be on the lookout for new opportunities to proactively influence or affect the environment, while reacting to competitive pressure. Hitt et al. (1994:38) are in agreement when they say; "the new competitive landscape requires managers with the foresight and courage to disrupt equilibrium in firms, even when the firm currently is performing well".



Hence, current success must be seen as temporary. Positions in relation to competitors and markets will change as competing organizations continuously adopt new plans and tactics. Changing customer needs, demands and expectations, as well as innovatory breakthroughs, also change or challenge organizations' positions in the market. Also, as the environment becomes more global and dynamic, the fragility of current success will increase. It is thus essential that organizations see themselves as "living systems that must learn and evolve by looking at both opportunities and threats in relation to all the strategic issues they must deal with" (Thompson, 1998:277).

Various authors are in accord that to survive in the 21<sup>st</sup> century, business must achieve strategic flexibility, continue to innovate, and develop their core competencies and effective leadership.

"Truly strategic organizations are able to embrace innovation and entrepreneurship" (Thompson, 1998:276). They find and exploit manageable opportunities, and flexibility is an essential aspect. Beatty and Quinn (2002) also stated that companies must seize competitive opportunities by creating or adopting innovations that make rivals' positions obsolete.

### ***2.2.1 Strategy and Leadership***

Strategy is the plan, strategic leadership is the thinking and decision-making required to develop and affect the plan. Firms use the strategic management process successfully through effective strategic leadership (Hitt and Keats, cited by Hagan et al. 1998).

Mintzberg (1978) affirmed that during strategy formation, there is interplay between the environment, which is ever changing (changes continuously and irregularly), and the organization. The leadership therefore must mediate between the two in order to "maintain the stability of the organization's operating system while at the same time ensuring its adaptation to the environmental change" (Mintzberg, 1978:941).

Strategic management is an organizational task and requires an integrated effort by all members of the organization for successful completion (Hosmer, 1982). The leader of

an organization is responsible for the strategic management process. He/she has to ensure that this management process is completed by all members of the organization, despite their differences in personal interests, behavioral patterns, group membership and hierarchical levels.

The strategic management process is intended to be a rational approach to help a firm effectively respond to the challenges of the 21<sup>st</sup> century competitive landscape.

The increasingly fast-moving and competitive environment we will face in the 21<sup>st</sup> century demands more leadership. It is thus apparent that strategic leadership is critical to achieving individual and organizational effectiveness and success in today's rapidly changing, increasingly globalized business environment.

### **2.3 The 21<sup>st</sup> Century Competitive Landscape**

The fundamental nature of competition is changing and the pace of this change is relentless and increasing (Hitt et al. 2003). "Technology is rapidly altering the nature of competition and strategy in the late 21<sup>st</sup> century, moving us toward a 'new competitive landscape' in the 21<sup>st</sup> century. The new competitive landscape represents new issues, new concepts, new problems, and new challenges" (Bettis and Hitt, 1995:8). In order to achieve or sustain a competitive advantage, global industries need to embark upon rapid development of product and process innovations. The nature of strategy is thus being altered.

A new mindset that values flexibility, speed, innovation and integration is 'the way to go.' In order to have strategic flexibility, firms must use a flexible process of strategic decision making to maintain flexibility in the deployment of critical resources. Also, in order to pool resources that would enable firms to remain competitive, a mindset that allows cooperation with competitors needs to be developed. In fact, Bettis and Hitt (1995) argue that strategic alliances between domestic and foreign competitors are required, but in particular between domestic competitors to help fight off foreign competition or achieve, at least, competitive parity in global markets. According to Pucik et al. (1992) these strategic alliances vary from simple technological and

marketing agreements to complex multi-joint venture arrangements. The boundaries of the firm are thus being transformed.

“The conditions of the competitive landscape result in a perilous business world, one where the investments required to compete on a global scale are enormous and the consequences of failure are severe” (Hitt et al. 2003:11).

In a document that looks at various research papers dealing with different aspects and implications of the new competition resulting from the new competitive landscape, Bettis and Hitt (1995) identified and examined the important features of the 21<sup>st</sup> century landscape and their implications for strategic management practice and research. The detail of this is outside the scope of this research paper and for the purposes of this research, only one feature of the new landscape will be examined, globalisation.

### **2.3.1 Globalisation**

“Globalisation has become one of the principal symbols of economic, cultural and political life in the 21st century” (<http://www.investorwords.com/2182/globalization.html>). Although there is no one precise definition of globalisation due to the complexity of the term and the varying attitudes towards it, put simply, it is the process of increasing the connectivity and interdependence of the world's markets and businesses - thus, the integration of the world economy (<http://www.imf.org/external/np/speeches/2003/081303.htm>). Hitt et al. (2003:13) describe globalisation as “the increasing economic interdependence among countries as reflected in the flow of goods and services, financial capital, and knowledge across country borders”. Hence, it is a world in which goods, services, people, skills and ideas move freely across geographic borders. It is the opening up of the whole world to free trade. The dynamic transfer of people, information, capital and goods is progressing on a worldwide scale.

As economies become more connected to other economies through the removal of trade barriers, so they have increased opportunity but also increased competition. A global economy significantly expands and complicates companies' competitive environments. This global competition, as Hitt et al. (2003) say, is more than product

vs. product or company vs. company. It is rather a case of mindset vs. mindset, hence managerial frame vs. managerial frame. These bring about opportunities and challenges associated with the emergence of the global economy. As Kofi Annan (cited by Akhter, 2004:283) stated, “the benefits of globalisation are obvious: faster growth, higher standards of living, and new opportunities.” Also, efficiency, and added value to goods and services are benefits of globalisation.

These “blurring of industry boundaries stimulates the emergence of new and sometimes aggressive competitors with significant resource bases and creates interesting challenges for firms’ strategic leadership processes” (Ireland and Hitt; 1999:48).

It can thus be said that globalisation brings more potential for organizations to grow and expand. It increases the range of opportunities for companies competing in the 21<sup>st</sup> century competitive landscape. Global markets thus offer firms more opportunities to obtain the resources needed for success. Equally though, new competitors can emerge anytime from anywhere. Whereas in the past, companies had to face the internal competition only, in this era (which has broken down boundaries between nations), companies have to face global competition. It is thus essential for companies to know their competition (both internally and globally) in order to come up with effective strategies to ward off this competition.

Furthermore, globalisation, and the competition that derives from it, has increased performance standards in many dimensions. Quality has become a necessary factor for success in global industries. Other dimensions are cost, productivity, product introduction time, and operational efficiency (Hitt et al. 2003:14). Pucik et al. (1992:1) added, “speed and quality in addressing the needs of worldwide customers will greatly influence who the next winners are going to be”. Because of the nature of competition, these standards are not static, but require continuous improvement. These increasing standards are posing challenges for companies and in order to survive, companies need to improve their capabilities and sharpen the skills of their employees. Hitt et al. (1994) stated that in the midst of intensifying global competition, obsolescence of employee knowledge, skills and abilities is becoming a critical problem. Hence, companies need to invest in human resource development to

enable employees to become more productive (efficient) and produce higher quality products. Organizations must thus foster an appropriate learning-oriented culture if they are to keep pace with global competition. In accordance, Srinivas (1995) has said that in order to achieve forward looking dynamism, swift strategic responses, operational flexibility, sustained effort, high levels of energy, and continuous renewal, businesses have to develop people who can think, lead and act from a broader global perspective.

Due to the constant introduction of new products and services by competitors (from all over the world), customers have more choices, and it has changed the perception of consumers. Consequently, product lifespan has decreased and companies have to constantly come up with new products in order to retain their market share.

Balestrini (as cited by Akhter, 2004:284) argues, “globalisation, by increasing economic freedom and providing access to information, empowers people and makes them officious regulators of corporate activity, responsibility, and accountability”.

As Hitt et al. (2003) state, only the firms capable of meeting, if not exceeding, global standards will succeed in this 21<sup>st</sup> century competitive landscape. “Managers who do not closely monitor changes in their global environment, or fail to respond quickly to those changes, are likely to find their organization’s survival in doubt” (<http://www.antiessays.com/essay.php?eid=221>).

The impact of globalisation is such that even small companies that do not operate on a global scale must make important strategic decisions based on international considerations. Companies (big and small) either export or import part or all of their products, and are thus under pressure to improve their products in the face of intense competition from high-quality foreign producers (Bateman and Snell, 2004). As such, the business environment of companies changes in the face of globalisation. Companies not only have to deal with their own environments, but also have to face the international environments of countries that they deal with.

Drawing from the above, the following can be identified as challenges facing the firm of the 21<sup>st</sup> century (due to globalisation),

### *Challenges*

- The change in business environment
- Intense competition
- International competition
- Knowledge of competition
- Technological advances
- Huge investments
- Adapting the business model
- Managing across borders
- Empowered consumers
- Higher investment in human resource developments

#### ***2.3.2 Globalisation and the developing world***

It is clear that, apart from the challenges, the globalized world offers many benefits. Gondwe (2001), however, argues that the benefits of globalisation have not accrued equally across countries. Developing countries, and in particular, Africa, have not been able to take full advantage of integration into the global economy. African countries need to reposition themselves in the world economy to maximize the benefits that have uplifted other regions. They need to recognize that globalisation can facilitate much-needed inflows of private investments and transfers of technology, as well as increase the access of their countries' exports to world markets. As reaping the benefits of globalisation depends primarily on the initiative and commitment of their own governments, African countries must "persistently pursue policies that create the conditions that attract investments, both domestic and foreign, and enhance trade" (Gondwe, 2001:2).

The various literature that has been studied on the subject stresses that Africa is immensely marginalized by globalisation. There are conflicting viewpoints in regard to the impact of globalisation to the developing world and in particular to Africa (where the majority of poor countries are). Though the debate will continue, the fact, however, is that globalisation does influence the way business is done (how strategies are framed) and firms (and countries), especially in the developing world need to accept this and ensure that they are integrated into the global economy.

Globalisation is introducing seasoned foreign competitors into the hitherto sheltered markets of the developing world. Srinivas (1995) argues that foreign competitors are encroaching on the traditionally assured territory of the developing world, and local businesses are faced with a situation in which they must pursue new strategies and tactics in order to survive. He goes on to say, “anticipatory and contingency strategic planning preceded by an appropriate cognitive framework is needed” (Srinivas, 1995:29). Proactive strategies are necessary if companies are to compete and remain viable. Whether they like it or not, developing world businesses are becoming increasingly linked to the new globalized business environment. A reinvigoration of management attitudes is required. Srinivas (1995:30) suggests the development of a global mindset, a mental framework, “a new way of approaching the world, a tendency to scan the world from a broad perspective.” The process of the development of this mindset is, however, not important for the purposes of this paper.

Organizations in which strategic leaders adopt this new mindset, “one in which mental agility, firm flexibility, speed, innovation, and globalized strategic thinking are valued highly, will be able to identify and competitively exploit opportunities that emerge in the new competitive landscape” (Ireland and Hitt, 1999:44).

Against the backdrop of increasing globalisation, it is indisputable that the primary task of management today is the leadership of organisational change (Jackson, 1997; Stace and Dunphy, 1996; Kanter et al., 1992; Limerick and Cunningham, 1993; Naisbitt and Aburdene, 1990; Ulrich and Wiersema, 1989; cited by Graetz, 2000).

Ireland and Hitt (1999:43) maintain, “without effective strategic leadership, the probability that a firm can achieve superior or even satisfactory performance when confronting the challenges of the global economy will be greatly reduced”. Organizations would be mobilized in order to adapt behaviours and exploit different opportunities through effective leadership.

## **2.4 Managers vs. Leaders**

Warren Bennis, a widely acclaimed leadership guru said (cited in Junior, 1997:1); “I tend to think of the difference of leaders and managers as the difference between those who master the context and those who surrender to it”.

Much literature has been published clarifying the distinction between management and leadership. This is outside the scope of this study. However, Junior (1997) stated that in discussing leadership, it is important to distinguish between management and leadership. The two are interconnected and it is difficult to talk about leadership without referring to management. A brief overview of the relation between the two concepts will therefore be provided to indicate the connection between them, and where the difference lies.

Leadership and management are two distinctive and complementary systems of action (Kotter, 1990), each having its own function and characteristic activities. They are different and serve different purposes. Zaleznik (1977) was the first who asserted that managers and leaders are different. Although this notion was initially rejected, it was then taken seriously and accepted in the 1990's (Leavy, 1996). Bennis and Nanus (quoted in Leavy, 1996) supported this view and argued that most organizations suffer from being overmanaged and underled; excelling in daily routine but never questioning whether the routine should be done at all. Kotter (1990) also had the same viewpoint that today corporations are overmanaged and underled. He emphasized that organizations need to develop their capacity to exercise leadership. This concurs with the highly revered Stephen Covey's assertion that "no management success can compensate for failure in leadership" (1989:103). In the 1992 reprint of his 1977 article "Managers and leaders: Are they different?" Zaleznik lamented that most organizations today persist in perpetuating the development of management over leadership although, as he says, there might be an awakening.

Hosmer (1982) goes further and says that leadership is not a synonym for management it is a higher order.

However, both are necessary for success in an increasingly complex and volatile business environment. While improving their ability to lead, "companies should remember that strong leadership with weak management is not better and is sometimes actually worse, than the reverse" (Kotter, 1990:103). Without leading as well as managing, today's organizations face the threat of extinction. "Strong leadership with no management risks chaos, the organization might walk right off a cliff. Strong management with no leadership tends to entrench an organization in



deadly bureaucracy” (Kotter, 1999:11). Hence, leadership complements management, and does not replace it. Companies must be able to combine strong leadership and strong management. Kotter (1999) also added that strong leadership and strong management meet today's commitments to customers and shareholders excellently while also adapting to change in a way that will make the enterprise stronger in the future.

#### ***2.4.1 What is the difference really?***

Zaleznik (1992:131) argued that a crucial difference between managers and leaders lies in “the conception they hold, deep in their psyche, of chaos and order”. Whereas leaders tolerate chaos and lack of structure, managers are comfortable where there is order and control and do not tolerate problems.

Leadership works through people and culture and is soft and hot, whereas management works through hierarchy and systems and is harder and cooler (Kotter, 1999).

Kotter (1990) stated that on the other hand, without good management, complex enterprises tend to become chaotic in ways that threaten their very existence. “Good management brings a degree of order and consistency to key dimensions like the quality and profitability of products” (Kotter, 1990:104). Hence management is about coping with complexity.

Two authors on leadership, Peter Ducker and Warren Bennis (cited in Junior, 1997:1) concur on the following; “Management is doing things right. Leadership is doing the right things. Management is the efficiency in climbing the ladder of success; leadership determines if the ladder is leaning against the right wall”. Bennis and Nanus (cited in King, 1994:8) was also in agreement as they said, “leading is influencing, guiding in direction, course, action, opinion. Managers are people who do things right and leaders are people who do the right things, with the difference being vision and judgment.”

Management deals more with carrying out the organization's goals and maintaining equilibrium. Leadership deals with change, inspiration, motivation, and influence. Because change has become part of the business world as it has become more

competitive and more volatile, leadership has become very important, as more change always demands more leadership. “Faster technological change, greater international competition, the deregulation of markets, overcapacity in capital-intensive industries, an unstable oil cartel, raiders with junk bonds, and the changing demographics of the work force are among the many factors that have contributed to this shift” (Kotter, 1999:52).

The fundamental purpose of leadership is thus to produce useful change, whereas the fundamental purpose of management is to keep the current system functioning. These different functions, coping with complexity and coping with change, is what shape the characteristic activities of management and leadership.

#### ***2.4.2 The Difference in tasks completion***

Each of the concepts (Management and Leadership) is involved in deciding what needs to be done, creating networks of people and relationships that can accomplish an agenda, and then trying to ensure that people do the job. Each, however, accomplishes these tasks in different ways (Kotter, 1990 and Kotter, 1999):

- Planning and budgeting vs. Setting a direction

Management is involved in planning; setting goals/targets, establishing steps for achieving these goals and then allocating resources for accomplishing these plans. Planning is designed to produce orderly results, not change.

Leaders produce change and are involved in developing a vision for the future, along with strategies to produce changes needed to achieve the vision. They are thus involved in setting a direction for the entire organization.

Planning works best not as a substitute for direction setting but as a compliment to it.

- Organizing and staffing vs. Aligning people

Organizing involves the capacity to create an organizational structure and human systems that can implement plans as precisely as possible, as well as staffing the jobs with individuals that are suited for the jobs, and communicating the plans to them. It

involves deciding how much authority to delegate and to whom, providing the training for those who need it, and devising systems to monitor implementation.

Aligning involves getting people to move in the same direction. It is about communication, talking to everyone who can help implement the vision and strategies or who can block implementation.

- **Controlling and problem solving vs. Motivating people**

Management is about comparing system behavior with the plan and taking action when a deviation is detected. Monitoring is done both formally and informally by means of reports and meetings. When deviations are identified, planning and organizing is redone to solve the problem.

Leadership involves generating highly energized people to cope with the inevitable barriers to change. Motivating and inspiring people energize them by satisfying basic human needs and achievement, a sense of belonging, recognition, self esteem and feeling of control over one's life as well as the ability to live up to one's ideas.

## **2.5 Leadership**

What is a leader? Various authors agree that a leader is one who influences others to attain goals. Leadership is the process through which a leader influences the attitudes, behaviors, and values of others, thus, trying to get others in the organization to do what he or she wants (Hagen et al. 2001, Vecchio and Appelbaum, cited in Appelbaum et al. 1998). "Outstanding leaders combine good strategic substance and effective interpersonal processes to formulate and implement strategies that produce results and sustainable competitive advantage" (Bateman and Snell, 2004:366). Leadership must be forward looking and clarify the directions in which they want their organization to move.

In a research paper by Junior (1997:1) on strategic leadership development, he alleged, "leadership is the subject of much interest and the aspiration of many as reflected in the multitude of papers, speeches, books, and seminars". On the state of

leadership research, Bennis and Nanus (cited by Leavy and Wilson, 1994:1) said, “never have so many laboured so long to say so little”.

Moreover, literature indicates that leadership is a largely elusive and enigmatic concept. Higgs (2003) stated that over the years the area of leadership and its impact on organizational success has been studied more extensively than almost any aspect of human behavior. The discipline has been studied in various contexts and theoretical foundations. He added that the history of leadership stretches back over many centuries (citing Clemens and Mayer, 1999; Collingwood, 2001, McAlpine, 1998; Jay, 1967). In 1980, Meindl et al. lamented, “after years of effort, and more than 5000 separate studies, we have been unable to generate an understanding of leadership that is both intellectually compelling and emotionally satisfying” (in Leavy, 1996:439). In 2003, Higgs (citing various authors) said that in spite of the plethora of studies, we still seem to know little about what entails effective leadership. In 2002, a search on the Library of Congress database revealed in excess of 8 000 books on the topic of leadership (Aitken, cited in Higgs, 2003).

Finding a common definition has been equally impossible, as leadership has been defined by many different disciplines. Stogdil (cited by Leavy, 1996) complained that there are almost as many definitions of leadership as there are persons who have attempted to define the concept. Horner (1997) expanded on this by stating that there is no consistent definition of a successful leader or one best understanding of what causes people to act as they do. According to her, this helps explain why leadership is one of the most widely studied phenomena.

Because of the various challenges facing today’s organizations, the burden is to develop individuals who demonstrate critical leadership qualities. People who have the potential to translate corporate vision into profitable action.

### ***2.5.1 Leadership theories***

Leadership studies are classified as trait, behavioural, contingency, and transformational. Earlier theories assumed that the primary source of leadership effectiveness lies in the personal traits of the leaders. Traits alone, however, cannot explain leadership effectiveness. Later, research focused on what the leader actually

did when dealing with employees. These behavioural theories of leadership sought to explain the relationship between what the leaders did and how the employees reacted, emotionally and behaviourally. Yet, behaviour cannot always account for leadership in different situations. Thus, contingency theories of leadership studied leadership styles in different environments. Transactional leaders, such as those identified in contingency theories, clarify role and task requirements for employees. Yet, contingency cannot account for the inspiration and innovation that leaders need to compete in today's global marketplace. Newer transformational leadership studies have shown that leaders, who are charismatic and visionary, can inspire followers to transcend their own self-interest for the good of the organization.

James McGregor Burns (cited by Leavy, 1996), who is noted for his views on strong leadership, articulated the distinction between Transactional leadership and Transformational leadership. Transactional leadership stems from more traditional views of workers and organizations and involves “motivating followers through direct exchange of economic and psychological incentives” (Leavy, 1996:437). It involves the position power of the leader to use followers for task completion thus, to achieve goals through rational, systematic, and controlled strategies. This leadership thus seeks to strengthen an organization’s culture, strategy and structure. According to Appelbaum et al. (1998), this leadership lacks the skills that are essential for influencing the perception of organizational members exhibiting resistance to change, as it gives little attention to people problem solving.

Transformational leadership involves “reaching beyond immediacy of face-to-face interaction and mutual self-interest to infuse entire organizations with a collective sense of mission and purpose” (Leavy, 1996:437). Horner (1997:274) adds to this when she asserts that transformational leadership “searches for ways to help motivate followers by satisfying higher-order needs and more fully engaging them in the process of the work” (citing Bass). These leaders initiate and cope with change. They are inspirational, intellectually stimulating and individually considerate. They help individuals transcend their self-interest for the sake of the large vision of the organization (Vera and Crossan, 2004).

Transformational leadership is the strategic type as they are active innovators. However, Power and Eastman (cited in Boal and Hooijberg, 2001) argued that while the content of strategic leadership theory and transformational theories is the same, they differ in both process and effects on followers.

### ***2.5.2 What makes successful leaders?***

“By examining appropriate and often innovative strategic leadership practices being used successfully by visionary organizations, it is possible to understand practices that will be effective in the 21<sup>st</sup> century” (Ireland and Hitt, 1999:43). Ireland and Hitt (1999) added that this analysis is critical as strategic leadership may prove to be one of the most critical issues facing the organizations.

In an article focusing on the top multinational executives of the 1990’s (by Darling, 1999), the following characteristic leadership strategies were identified as being at the core of their success:

- **Attention through vision**

Vision states the reason for the organization’s existence and helps to create a focus for the organization. “Vision grabs attention! Initially it grabs the leader, and management of attention encourages others to make a commitment to organizational achievement” (Ohmae, cited by Darling, 1999:318).

- **Meaning through communication**

Without effective communication very little will be realized. To be successful, a leader should have “the capacity to relate a compelling image of a desired state of affairs- the kind of image to induce enthusiasm and commitment in others” (Darling, 1999:318). Communication creates meaning for people in the organization. An organization depends on the existence of shared meaning and interpretations of reality, which facilitate coordinated action- thus ensuring that all become aligned behind the overarching goals of the organization.

- Trust through positioning

Trust, as Darling (1999) puts it, implies accountability, predictability, and reliability and is a facilitator, which ensures that an organization functions effectively. It provides the foundation for organizational integrity and keeps organizations operating.

Warren

Bennis

(<http://www.pfdf.org/leaderbooks/L2L/spring99/bennis.html>) added that in today's uncertain environment, trust becomes the emotional glue that can bond people to an organization. He also identified factors that generate trust; competence, constancy, caring, candour, congruity. "Positioning encompasses the set of actions necessary to implement the vision of the leader" (Darling, 1999:319). Leaders who are trusted make themselves known and make their positions clear. Through establishing the position, and maintaining continuity, the leader establishes trust.

- Confidence through respect

Successful executives know their worth. Darling (1999) found that the analysis of the leadership styles of these top executives indicated that a key factor in building confidence through respect focuses on the creative deployment of self. He goes on to say that the "creative deployment of self makes executive leadership a deeply personal activity because of the necessity of a positive self regard" (Darling, 1999:320 citing Scherkenbach). A positive self-regard consists of; knowledge of one's own strengths, the capacity to nurture and develop those strengths and the ability to discern the fit between one's strengths and weaknesses and the organisation's needs. Executive leaders have the ability to bring out the best in their colleagues and employees by inducing a positive other-regard.

So, what makes successful leaders? Literature has shown that leadership is a very broad and elusive topic. Although research and literature reviewed provide a strong foundation on the basis of leadership, it is not enough to provide a conclusive description as to what makes leaders successful. Leadership is an area that changes all the time, just as individuals and organizations change. It thus needs to be continually studied so that assessment and training processes are appropriate for the current leadership context.

### **2.5.3 Leaders vs. Strategic Leaders**

From a review of the literature, it is clear that the concepts of leadership and strategic leadership have tended to be treated as almost synonymous. Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>), who has done research on the concept of leadership, affirmed that there has not been any attempt in the literature to distinguish between the two concepts. The blending and overlap of terms, concepts and theories seems to be commonplace without much attempt to separate the two

Vera and Crossan (2004), however, stated that leadership refers to leaders at any level of the organization, whereas strategic leadership refers to the study of people at the top of the organization.

## **2.6 Strategic leadership**

Beatty and Quinn (2002:3) affirmed, “strategic leadership is critical to achieving individual and organizational effectiveness and success in a rapidly changing, increasingly globalized business environment that grows more complicated by the day”. Organizations in every industry and sector face an environment of continuous and accelerating change. The job of strategic leadership requires a broad knowledge of the firm’s operation as well as the firm’s external environment; the general environment, the industry and the competitor environment (Hitt et al. 2003). Covey (1989:102) added to this view when he said, “proactive powerful leadership must constantly monitor environmental change, particularly customer buying habits and motives, and provide the force necessary to organise resources in the right direction”.

Strategic leadership is an extremely complex, but critical form of leadership and the rapidly changing environment in which we live makes it more critical than it has ever been. It provides the vision, direction, the purpose for growth, and context for the success of the corporation (Hitt et al. 2003). “Effective leadership is a dynamic process of maintaining coherence among the elements of the evolving vision, continuous communication with all members of the organization, and constant efforts to maintain members’ ongoing commitment to the vision” (Hitt et al. 1994:20). Then only will organizational members be likely to understand and support the changes that are constantly occurring.



### **2.6.1 Strategic leadership defined**

Although there are various definitions for strategic leadership by various authors, many seem to agree on Ireland and Hitt's definition. Ireland and Hitt (1999:43) defined strategic leadership as "a person's ability to anticipate, envision, maintain flexibility, think strategically, and work with others to initiate changes that will create a viable future for the organization". Rowe (2001:81) included the aspect of voluntary decision-making and defined strategic leadership as "the ability to influence others to voluntarily make day-to-day decisions that enhance the long-term viability of the organization, while at the same time maintaining its short-term financial stability". She argued that leaders (and employees) are involved in decision-making processes on a daily basis and their decisions affect their companies and their environments. It is thus important for organizations to ensure that the strategic direction of the organization is clear so that both leaders and employees do not make decisions that might harm the organization, hence ensuring that these decisions are consistent with the vision. She added that influencing employees to voluntarily make decisions that enhance the well being of the organization is a crucial part of strategic leadership.

Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) defines strategic leadership as, "the art of accurately envisioning future organizational needs, outputs, and outcomes; what organizational alignment will be required in order to meet those needs and required outputs, and then successfully generating the organizational change necessary to achieve the desired outcomes".

### **2.6.2 The What, How and Who of strategic leadership**

In the viewpoint of Beatty and Quinn (2002) strategic leadership has three parts, *what* it achieves, *how* it is accomplished, and *who* in an organization has the main responsibility for leading strategically.

The *what* of strategic leadership basically entails the producing of a competitive advantage. The *how*, involves the thinking, acting and influencing aspects of strategic leadership. Strategic thinking is vital and "involves gathering information, making connections among the various pieces of information, and filtering the information to form ideas and strategies that are focused, relevant, and sound" (Beatty and Quinn, 2002:5). Business today occurs in rapidly changing, increasingly globalized business

environments. These environments lead to circumstances that are ambiguous and sometimes even contradictory. Anticipating and reacting to these circumstances is a key to success. It is the task of strategic leaders to ensure that the organization stays on the right course in the midst of these environmental conditions. They do this by constantly scanning the internal (its mission, the organizational culture and values, employees' capabilities and talents, and budgetary issues) and external environments (market conditions, global economies, changing technology, customers, industry innovations, and shifting supplies of resources) and identifying any aspect that might impact the organization.

Furthermore, although strategic leadership is focused on the long-term well being of the organization, the tactical day-to-day operation of the firm is important. The leaders must find a balance between the long-term vision of the firm and the short-term actions. The two perspectives are interconnected and strategic leaders must be able to distinguish between short-term issues that bolster the long-term vision and those that are detrimental.

Another aspect is that strategic leaders must influence people at all levels of the organization to work toward the organization's strategic goals by giving them a clear sense of the strategy and how it applies to their specific jobs and roles. As Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) quotes Arthur Martinez of Sears, "If you are unable to galvanize people into action, all the thinking, the analysis, the strategic prioritization does not matter at all".

An ongoing debate is on *who* provides strategic leadership. The strategy literature (Kotler, 1982; Mintzberg, 1973; Gupta, 1984 cited in Shrivastava and Nachman, 1989) presumes that strategic leadership of organizations is primarily provided by chief executives, presidents or general managers. In agreement, Hagen et al. (2001) said that the primary responsibility of strategic leadership lies with the Chief Executive Officer. Also, as Cannella and Monroe (1997:213) said (citing Hambrick & Mason), strategic leadership theory argues that "organizations are reflections of top managers and the specific knowledge, experience, values, and preferences of top managers are reflected not only in their decisions, but in their assessments of decision situations". Hitt et al. (2003) concur that the top management team is responsible for

formulating and implementing the organization's strategies. They also assert that as strategic leaders, top management must guide the firm in ways that result in the formation of a strategic intent and strategic mission, and must facilitate the development of appropriate strategic actions and determine how to implement them. However, the influence of individuals on organizational performance has been said to be ambiguous. In a study aimed at challenging the assumption that only CEOs provide strategic leadership in organizations, Shrivastava and Nachman (1989) did not debunk the critical role of top managers in strategic leadership, although they suggested that individual managers are not indispensable to the strategic leadership of organizations.

Beatty and Quinn (2002) added that it is a mistake to think that only senior officers can be strategic leaders. "Individuals whose decisions have effects beyond their own functional areas often have opportunities to think, act, and influence as strategic leaders" (Beatty and Quinn, 2002:7).

Moreover Ireland and Hitt (1999) said that having strategic leadership centered on a single person or a few people at the top of a hierarchical pyramid is increasingly counterproductive. According to them, "conditions associated with the global economy's new competitive landscape; shorter product life cycles, ever-accelerating rates and types of change, the explosion of data and the need to convert it to useable information, prevent single individuals from having all of the insights necessary to chart a firm's direction" (Ireland and Hitt, 1999:45).

In concurrence, Horner (1997:275) maintains, "leaders become great by unleashing the potential and abilities of followers, consequently having the knowledge of many people instead of relying solely on their own skills and abilities". Successful leadership thus involves the contributions of various great thinkers and doers. People working together in an organization need to develop socially understood interpretations so they can be effective as a group. Leadership thus requires participation from everyone in the organization so that "all members are engaged in creating meaning and acting on that meaning" (Drath and Palus, cited by Horner, 1997:277).

Zaleznik (1992) also added that power in the hands of an individual entails human risks. These are, among others, the risk of equating power with the ability to get immediate results, the risk of ignoring the many different ways people can legitimately accumulate power and the risk of losing self-control in the desire for power.

### ***2.6.3 Dealing with change***

The rate of change in today's world is constantly increasing. As Appelbaum (1998:289) puts it, “in today’s turbulent environment of organizations, change has become synonymous with standard business practices as long-term organizational ends have to be formulated on an ongoing basis”.

Also, “revolutionary technologies, consolidation, well-funded new competition, unpredictable customers, and a quickening in the pace of change, hurled unfamiliar conditions at management” ([http://www.1000ventures.com/business\\_guide/crosscuttings/change\\_management.html](http://www.1000ventures.com/business_guide/crosscuttings/change_management.html)).

Leadership is the basic engine that drives successful change. Strategic leadership is about creating strategic change. Strategic leaders must thus be able to cope with the change brought about by the 21<sup>st</sup> century competitive landscape. They must be able to respond appropriately and quickly in the complex global competitive environment.

In a research paper that explored the aspect of change as an element of Strategic leadership, Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) stated that strategic leadership requires successful change execution. “Strategic leadership contains with its own fundamental construct the requirement for leading and managing change (Becker, <http://198.231.69.12/papers/nssc/nssc6/becker.pdf>). Kotter (1999:2) contends, “Leadership produces change, often dramatic change, and may produce extremely useful change- new products that customers want, new approaches to labour relations that help make a firm more competitive”.

The challenge for strategic leadership is to learn how to deal with diverse and cognitively competitive situations (Hitt et al. 2003). They must be able to understand

the dynamics of change that are occurring. Strategic leadership entails making decisions across different cultures, agencies, agendas, personalities and desires.

#### ***2.6.4 Strategic Leadership as a competitive advantage***

The more demanding nature of competition that now characterizes business requires leadership based on intellect, flexibility, creativity, innovation and total quality. Companies may be able to imitate many of a company's products and services, but "few will match the dynamism of an organization that focuses on winning through intellect, people and change" (<http://www.agsm.edu.au/s>).

Strategic leaders can be a source of competitive advantage only when their work is valuable, rare, costly to imitate and non-substitutable, and also when they focus their work on key issues that ultimately shape the firm's ability to earn above-average returns (Hitt et al. 2003). Ireland and Hitt (1999:43) added to this when they noted, "when strategic leadership processes are difficult for competitors to understand and hence, imitate, the firm has created a competitive advantage". The creation of competitive advantage is the universal objective of all companies, so as to earn superior returns on investments. Hence, being able to exercise strategic leadership in a competitively superior manner is crucial.

#### ***2.6.5 Essential roles for Strategic Leadership***

According to Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf>), literature consistently supports at least three roles of the strategic leader; path finding, aligning and empowering.

Path finding is the first and primal function and is an inherent function for the strategic leader. It requires clarity of purpose. This involves the strategic visioning process, of intuitively melding experience, wisdom and foresight into accurately choosing an organizational path toward a successful future. Covey, (cited in Becker, <http://198.231.69.12/papers/nssc/nssc6/becker.pdf>) stated, "the essence and power of path finding are found in a compelling vision and mission".

Organizational alignment is also fundamental to strategic leadership. The leader must ensure that the organizational structure, process and systems are aligned with the

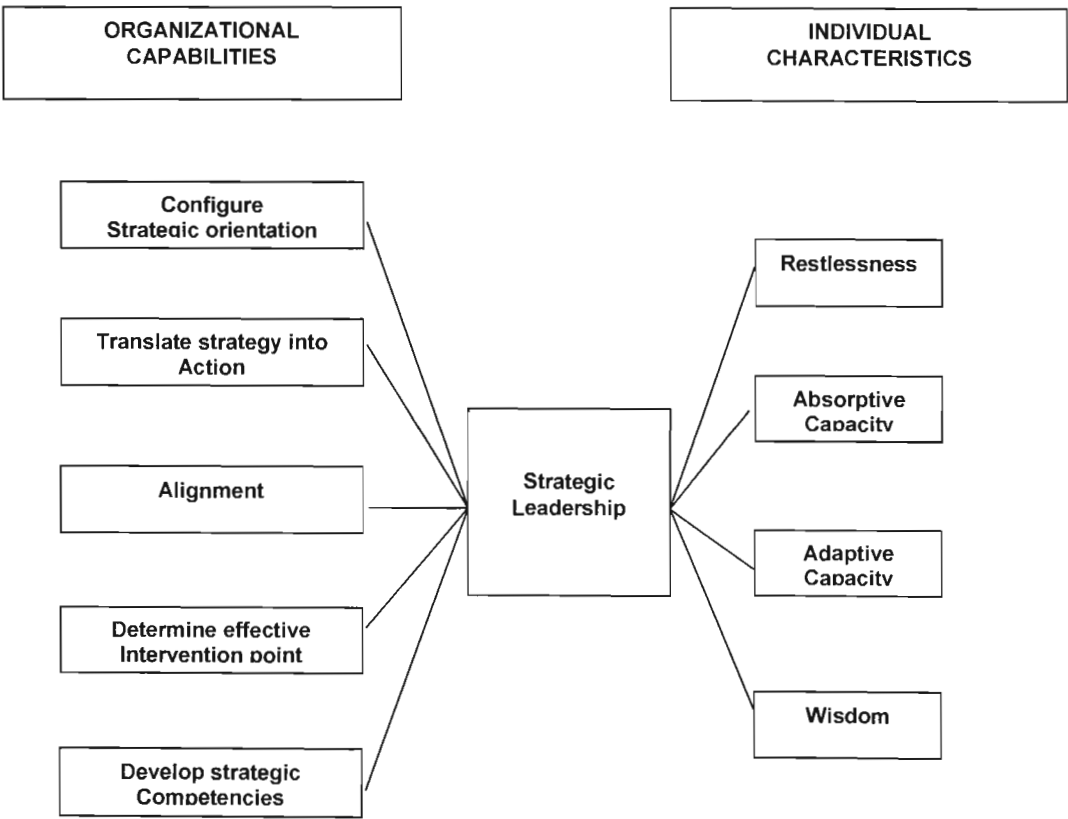
desired results identified in path finding. “Bad alignment between structure and shared values, between vision and system and structure of the organization poorly serve and reinforce the strategic paths” (Becker, <http://198.231.69.12/papers/nssc/nssc6/becker.pdf>). Hitt et al. (1994) added that effective leadership should keep everyone aligned with and committed to the organization’s vision.

The role of empowering pertains to creating the conditions that foster the release and creativity, talent, ability and potential that exists in people.

**2.6.6 Strategic leaders’ abilities and characteristics**

In an article aimed at exploring the nature of strategic leadership, Davies and Davies (2004) identified the following abilities and characteristics that can be associated with strategic leadership:

**Figure 2.1: The nature of Strategic leadership**



Source: Davies and Davies, 2004:36

### *Organizational abilities*

- Strategic leaders have the ability to be strategically oriented

This involves the leader's ability to see the long-term future (seeing the big picture), as well as understanding the current contextual setting of the organization. "Strategic orientation is the ability to link long-range visions and concepts to daily work" (Davies and Davies, 2004:30).

- Strategic leaders have the ability to translate strategy into action

This involves converting the strategy into operational terms. Leaders should be able to describe and communicate the strategy in a consistent and insightful way. They should be able to step back and articulate the main features of the current organization and lead others in defining what the future of the company will be.

- Strategic leaders have the ability to align people and organizations

This involves the ability to align individuals to a future organizational state or position. "A key element of this is the ability to encourage commitment through shared values" (Boal and Bryson, cited in Davies and Davies, 2004:32). Making a vision real for others requires skills of conviction and passion and involves emotion. Strategic leadership thus focuses on the creation of meaning and purpose for the organization. "Aligning is about altering attitudes, values, and beliefs, all of which influence the culture of an organization to unify its sense of purpose and direction" (Davies and Davies, 2004:33).

- Strategic leaders have the ability to determine effective intervention points

"These are critical points in an organization's development when it is possible to develop new vision, create new strategies and move in new directions" (Davies and Davies, 2004:33). This entails being able to define the key moment for strategic change in organizations, what strategically to change as well as strategically when to intervene and change direction.

- Strategic leaders have the ability to develop strategic capabilities

“By focusing on strategic capabilities, leaders position themselves and their organization to be successful in the longer term” (Davies and Davies, 2004:34). Strategic capabilities enable the organization to successfully meet new challenges, reconfiguring existing abilities and resources rather than having to seek new ones.

#### *Personal characteristics*

- Strategic leaders have a dissatisfaction or restlessness with the present

This entails the ability to see clearly where one wishes to be, but not being able to change the organization fast enough. Thus, facing the truth about one’s current reality, and maintaining the restlessness for change to improvement. “Individuals who are able to do this challenge ideas and processes to seek better ideas and processes” (Davies and Davies, 2004:34).

- Strategic leaders have absorptive capacity

As Hambrick (in Davies and Davies, 2004:34) says, strategic leadership occurs in environments which are “embedded in ambiguity, complexity and informational overload” and leaders must have the ability to take new information- and analyze it and then apply it to new outcomes- filter out the unimportant and make sense of the important. As Boal and Hooijberg (2001:517) added, absorptive capacity “involves the capacity to recognize new information, assimilate it, and apply toward new ends”. Thus, the processes used to improve the fit between the organization and its environments.

- Strategic leaders have adaptive capacity

Adaptive capacity is the capacity to change and means that leadership should be flexible in an era of innovation and continuous learning, as success may depend on a flexible strategic response. Davies and Davies (2004) maintain that leaders can adopt and lead new strategic directions for the organization if they have cognitive flexibility linked to a mindset that welcomes and accepts change. “In the new competitive landscape characterized by increasing strategic discontinuities and disequilibria conditions, hyper competitive markets and an increasing focus on innovation and continuous learning, organizational success depends upon strategic flexibility” (Boal



and Hooijberg, 2001:517). Adaptive capacity thus according to them, involves the ability of the firm to pro-act, or respond quickly to changing environmental conditions.

- Strategic leaders have leadership wisdom

Wisdom may be defined as “the capacity to take the right action at the right time” (Davies and Davies, 2004:35). According to Boal and Hooijberg (2001), managerial wisdom combines properties of discernment (the ability to perceive variation in the environment and an understanding of others, i.e. empathy, conflict management) and Kairos time (the capacity to take the right action at a critical moment).

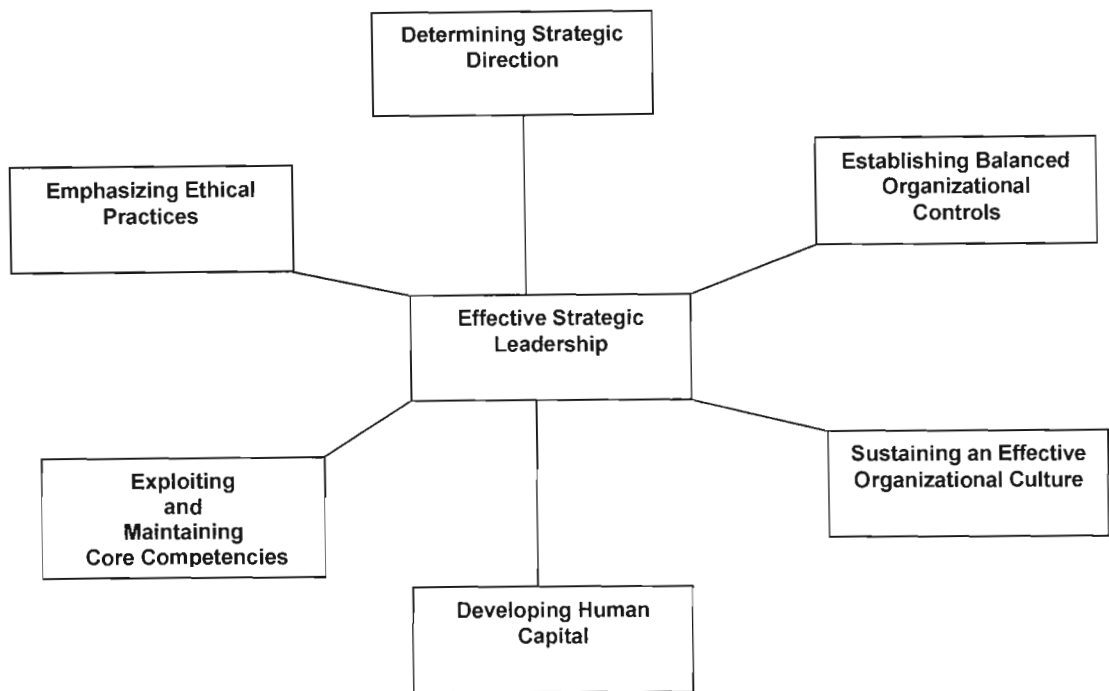
## **2.7 The Model**

According to the authors Hitt, Ireland, and Hoskisson (2003) strategic leadership must be action oriented, hence the decisions made should spur the company to action. These decisions and actions can make strategic leaders a source of competitive advantage thus, through the value created by their strategic actions.

As mentioned in the first chapter (section 1.2), Hitt, Ireland, and Hoskisson (2003) have developed a framework for strategic leadership, with six critical components essential for effective leadership. These components enable leaders to take actions that contribute to the effective use of the firm’s strategies. These strategic actions will be explored in detail below:

- Determining strategic direction
- Exploiting and maintaining core competencies
- Developing human capital
- Sustaining an effective organizational culture
- Emphasizing ethical practices
- Establishing balanced organizational controls

**Figure 2.2: Framework for Strategic Leadership**



Source: Adapted from Hitt et al. 2003:395

- **Determining strategic direction**

Strategic direction means the development of a long-term vision of a firm’s strategic intent. This task rests squarely on the CEO’s shoulders. The vision, which is typically 5 to 10 years into the future, consists of the image and character the firm seeks. Having a vision for the future and communicating that vision to others are essential components for great leadership. Bateman and Snell (2004:366) define a vision as a “mental image of a possible and desirable future state of the organization” and it expresses the leader’s ambitions for the organization. A vision should be ideal (communicating a standard of excellence and a clear choice of positive values) and unique (communicating and inspiring pride in being different from other firms).

Strategic intent, according to Hagen et al. (2001:39) means “the leveraging of a firm’s resources, capabilities, and core competencies to accomplish what may at first appear to be unattainable goals in the competitive environment”. It exists when all employees are committed to the pursuit of a specific performance criterion, and it provides employees with a goal worthy of personal effort and commitment. Przybylowicz and

Faulkner (in Proctor, 1997:150) suggested that to be effective, “strategic intent must create a sense of urgency, be competitor focused, search for weaknesses in competitors’ positions which can provide competitive advantage if properly addressed, and must remain stable over time while being flexible as to the means used to achieve the intended goals”. When employees believe in their company’s product and industry, and are totally focused on the firm’s ability to outperform competitors, then strategic intent has been effectively formed (Hitt et al. 2003).

Strategic mission on the other hand, is “a statement of a firm’s unique purpose and the scope of its operations in product and market terms” (Hitt et al. 2003:23). It provides a strong sense of what the firm wants to do (a description of the products the firm intends to produce and the markets it will serve) and of the ethical standards that will guide behaviors in the pursuit of its goals. Together strategic intent and strategic mission yield the insights required to formulate and implement strategies.

It is not simple for leaders to create a sound direction. They need to take into account a wider array of factors during decision-making, which would increase the likelihood of success.

- Exploiting and maintaining core competencies

Core competencies generally relate to an organization’s functional skills such as manufacturing, finance, marketing, and research and development. According to Prahalad and Hamel (1994) they involve all levels of people and all functions and are the bases on which to build strategies. They went on to say that “core competencies are the collective learning in the organization, especially how to co-ordinate diverse production skills and integrate multiple streams of technology” (Prahalad and Hamel, 1990:82). Hitt et al. (1994:30) define core competencies as “organizational skills around which a firm builds a competitive advantage”.

Ireland and Hitt (1999:49) state, “the relatively unstable market conditions resulting from innovation, diversity of competitors, and the array of revolutionary technological changes occurring in the new competitive landscape have caused core competencies rather than served market to become the basis upon which firms establish their long term strategies”.

Core competencies are the resources and capabilities serving as a source of competitive advantage for a firm over its rivals and allow organizations to produce and deliver products that have unique benefits and value for customers (Prahalad and Hamel, in Hagen et al. 2001). Ireland and Hitt (1999:49) maintain that in the 21<sup>st</sup> century, an ability to develop and exploit core competencies will be linked even more positively and significantly with the firm's success. Prahalad and Hamel (1990) assert that in the long run, competitiveness lies in the ability to build, at a lower cost, and faster than competitors, the core competencies that generate unanticipated products. They add (Prahalad and Hamel, 1990:81), "the real sources of advantage are to be found in management's ability to consolidate corporate wide technologies and production skills into competencies that empower individual business to adapt quickly to changing opportunities".

It is the task of strategic leaders to ensure that the firm's competencies are emphasized during the strategy implementation efforts (Hitt et al. 2003). Strategic leaders should make decisions that help the firm develop, maintain, strengthen, leverage and exploit core competencies. Hagen et al. (2001) add that exploiting core competencies involves sharing resources across units.

Core competencies do not, like physical assets, deteriorate with use they grow. In fact they are enhanced as they are applied and shared. They, however, need to be nurtured and protected. "Competencies are the glue that bind existing business, and are the engine for new business development" (Prahalad and Hamel, 1990:82). However, for a firm's resources and capabilities to be identified as core competencies, they should be valuable, rare, costly to imitate and should have no equivalent substitutes (Ireland and Hitt, 1999). Hagen et al. (2001:41) add, "the most effective core competencies are based on intangible resources, which are less visible to competitors because they relate to employees' knowledge or skills".

- Developing human capital

Human capital refers to the knowledge and skills of a company's workforce. The workforce, the employees, is viewed as a capital resource that requires investment. This investment results in a creative well-educated workforce, and as Ireland and Hitt

(1999:50) said, in the global economy “significant investments will be required for the firm to derive full competitive benefit from its human capital”.

According to Hitt et al. (2003:397) the “effective development and management of the firm’s human capital may be the primary determinant of a firm’s ability to formulate and implement strategies successfully”. Hence, building human capital is vital to the effective execution of strategic leadership and strategic leaders therefore need to acquire the skills needed to help develop employees in their areas of responsibility.

Warren

Bennis

(<http://www.pfdf.org/leaderbooks/L2L/spring99/bennis.html>) in an article (The Leadership Advantage) taken from his book, ‘On Mission and Leadership’, also stated; “without leaders who can attract and retain talent, manage knowledge, and unblock people's capacity to adapt and innovate, an organization's future is in jeopardy”.

An effective Human Resource function is a crucial, intangible asset for companies with respect to Competitive Advantage. Hitt et al. (2003) maintain that core competencies cannot be effectively developed or exploited without appropriate human capital. Hence, taking on board and keeping the right people is crucial to gaining a competitive advantage in today’s rapidly evolving business world. Hitt et al. (1994) added that the development of human capital is critical for strategic competitiveness.

One of the world’s most accomplished business leaders, Jack Welch, believes in human capital development and emphasized selecting the right people, allocating capital resources, and spreading ideas quickly as the main tasks of a leader (<http://www.pfdf.org/leaderbooks/L2L/spring99/bennis.html>).

With the new competitive landscape comes the growing need for good, new ideas. Knowledge management as described by Bateman and Snell (2004:8) refers to “the set of practices aimed at discovering and harnessing an organisation’s intellectual resources, fully utilising the intellects of the organisation’s people”. It is about finding, unlocking, sharing and capitalising on “the most precious resource” of an organisation, the people’s expertise, skills, wisdom and finally their relationship.

Companies need to find these human assets, help people collaborate and learn, generate ideas and harness these ideas into successful innovations.

This brings up the concept of intellectual capital, “the collective brainpower of organizations” (Bateman and Snell, 2004:9). It is important that companies know how to attract good people, make them want to stay and inspire them to consistently come up with creative ideas. The ultimate goal is for companies to turn the brainpower of their employees into profitable products (Bateman and Snell, 2004:9).

According to Hagen et al. (2001) human capital can be developed through training and development, thus management development programs which can help build skills and facilitate communication among employees by providing a common language, building employee networks, and constructing a common vision of the firm. These programs also help employees acquire skills that are critical to an organization’s primary operations, core competencies, and customers. Furthermore, because development programs socialize and help instil a common set of core values, they promote cohesion among employees.

- Sustaining an effective organizational culture

Organizational culture refers to the complex set of ideologies, symbols, and core values in a firm (Hitt et al. 2003). These are the glue that keeps people together in organizations (Fernández and Hogan, 2003), as they provide a sense of shared meanings and morals. Culture is rooted in history and is concerned with decisions, actions, communication patterns, and communication networks (Ireland and Hitt, 1999:51).

Shaping the organization culture, the context within which the organization formulates and implement its strategies, is a central task of effective strategic leadership because it influences the way things are done in the organization. Leaders are thus involved in managing the culture by “establishing an explicit strategic direction, communicating that direction, and defining the organizational vision and value” (Horner, 1997:272). Fernández and Hogan (2003:38) added, an organization’s leaders define “the organization’s core values, underlying attitudes and beliefs that strongly influence individual and group behavior”

Firms can develop core competencies in terms of the capabilities it possesses as well as the way these capabilities are used to produce strategic actions. A firm can thus have a competitive advantage in the way capabilities are used to produce strategic actions. Organization culture influences how the organization conducts its business and helps regulate and control employees' behaviors and hence it can be a source of competitive advantage.

Lippit (2003) accentuates that the competitive advantage that is the hardest to replicate is internal culture. "In the global economy, strategic leaders capable of learning how to shape a firm's culture in competitively relevant ways will become a valued source of competitive advantage" (Ireland and Hitt, 1999:51).

"Strategic leaders must develop and nurture an appropriate culture, one that promotes focused-learning and human development, the sharing of skills and resources among units in the firm, and the entrepreneurial spirit important for innovation and competitiveness" (Hagen et al. 2001:40). Hitt et al. (1994:31) concurred when they said, an effective culture is "one that promotes appropriate levels of risk taking and fosters an entrepreneurial spirit". Such culture creates an emphasis on strategic actions linked with the production of high-quality goods and services.

Competitive advantages do not last forever and therefore, firms need to move forward continuously. Effective cultures are those in which employees understand this and are comfortable with the reality of constant change.

- Emphasizing ethical practices

"Insider trading, illegal campaign contributions, bribery, famous court cases, and other scandals have created a perception that business leaders use illegal means to gain competitive advantage, increase profits, or improve their personal positions" (Bateman and Snell, 2004:140). Leaders should therefore create an environment of mutual respect, honesty, trust and ethical practices throughout the organization, to ensure that these do not suffice. Sanchez and Heene (2004) emphasized that a policy of honesty is in the best long-term interest of an organization. They further added that when strategic leaders lead organizations to follow "a policy of honesty and build a culture of honesty and trust internally and a reputation for trustworthiness externally,

their organizations might gain several strategic advantages over organizations that lack trust” (Sanchez and Heene, 2004:210-211).

Furthermore, when processes used to implement the firm’s strategies are based on ethical practices, they tend to be more effective. All strategic decisions have ethical dimensions, primarily because they are related to how a firm interacts with its stakeholders. “Especially in the turbulent and often ambiguous 21<sup>st</sup> century competitive landscape, those making strategic decisions are challenged to recognize that their decisions do affect capital markets, product markets and organizational stakeholders differently and to evaluate the ethical implications of their decisions” (Hitt et al. 2003:31).

Ethics are an essential part in shaping decision-making processes and must be an integral part of the firm’s culture (Hitt et al. 2003). Firms can shape and control employees’ and managers’ behavior through formalized rules, economic rewards and sanctions, and the values and norms that represent corporate culture (Sinclair, cited in Hagen et al. 2001). Companies that emphasize ethical practices encourage and enable people at all organizational levels to act ethically when doing what is necessary to implement the firm’s strategies. “To the extent that employees and managers share a common set of ethical principles, there is a strong likelihood that ethical practices will be observed” (Hagen et al. 2001:41).

Firms therefore need to employ ethical leaders, thus, leaders to which ethical practices are an essential part in everything they do, including laying down their long-term vision for the firm and for whom honesty, trust and integrity are important. Such leaders inspire their employees and develop organizations in which ethical practices are expected behavioral norms. Hence, organizations that adhere to strict ethical practices will be better able to attract the best possible resources to its value-creation and distribution processes.

- Establishing balanced organizational controls

Ireland and Hitt (1999:52) defines organizational controls as “the formal, information-based procedures that strategic leaders use to frame, maintain, and alter patterns of organizational activities”. They are essential in providing the parameters within which



strategies are to be implemented, as well as to what corrective actions are to be taken. They are also an important part of the strategy implementation process as they help to ensure that firms achieve their desired outcomes.

“Organization controls guide the use of strategy, indicate how to compare actual results with expected results, and suggest corrective actions to take when the difference between actual and expected results is unacceptable” (Hitt et al. 2003:347). Without effective organization controls, it would be hard for the company to successfully exploit its competitive advantages. Controls that are well designed provide clear insights as to what behaviors would enhance firm performance. Firms rely on strategic controls and financial controls to support use of their strategies.

Strategic controls focus on the content of strategic actions in order to achieve appropriate outcomes. Their emphasis is thus on actions rather than outcomes. Hitt et al. (2003:347) define strategic controls as “largely subjective criteria intended to verify that the firm is using appropriate strategies for the conditions in the external environment and the company’s competitive advantages”. Strategic controls examine the fit between what the firm might do (according to the opportunities in the external environment) and what the firm can do (according to its competitive advantages). These controls require that there be good communication among the various managers in the organization, those responsible for using strategic controls to judge the firm’s performance, and those with primary responsibility for implementing the strategies. They encourage lower-level managers to make decisions that incorporate moderate and acceptable levels of risk.

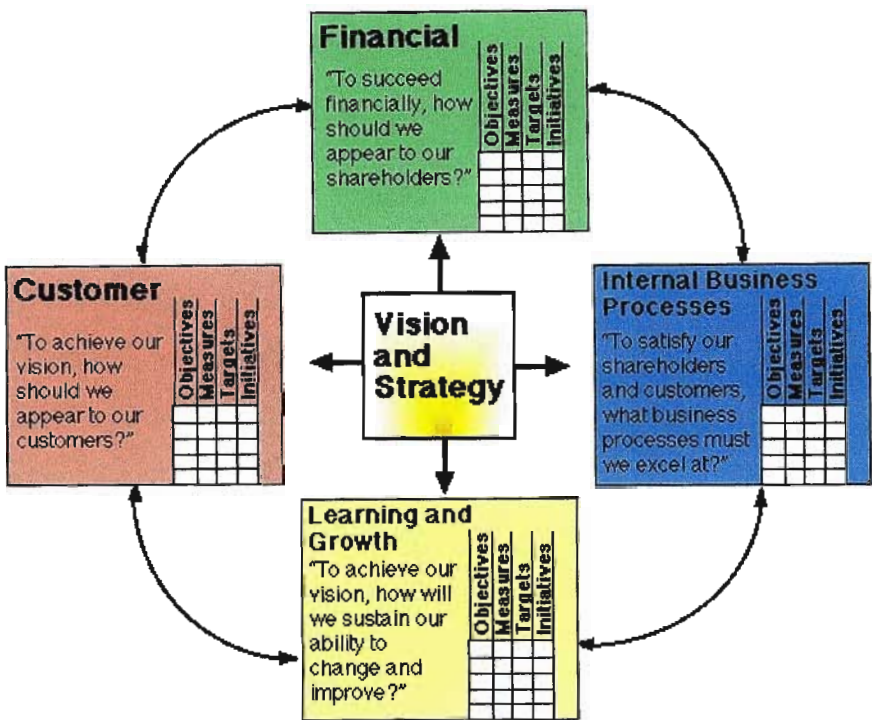
Financial controls are “largely objective criteria used to measure the firm’s performance against previously established quantitative standards” as well as against competition and industry averages (Hitt et al. 2003:348). By focusing on performance-induced outcomes, these controls encourage the accomplishment of short-term performance goals. Without effective financial controls, the firm’s performance can deteriorate.

Organizations use the balanced scorecard to ensure that they balance the strategic controls and financial controls, so that they can have an understanding of its overall

performance. The Balanced Scorecard provides a framework for designing a set of measures for activities identified as the key drivers of an organisation ([http://www.1000ventures.com/business\\_guide/mgmt\\_measurement\\_bsc.html](http://www.1000ventures.com/business_guide/mgmt_measurement_bsc.html)). It has four distinct perspectives (financial, customer, internal process and innovation and learning), and promotes a more holistic, balanced view of any organization.

The first perspective, *financial* is concerned with growth, profitability, and risk from shareholders' perspectives. *Customer* is concerned with the amount of value customers perceive as created by the firm's products. The third, *internal business processes* focuses on the priorities for various business processes that create both customer and shareholder satisfaction, and the fourth and final one, *learning and growth* focuses on the firm's effort to create a climate that supports change, innovation and growth (Hitt et al. 2003). Emphases on the four perspectives provide a balance of both strategic and financial controls, and allow firms to effectively monitor their performance. Hitt et al. (2003:406) assert that "a proper balance between controls is important, in that, wealth creation for organizations where strategic leadership is exercised is possible because these leaders make appropriate investments for future viability (through strategic controls), while maintaining an appropriate level of financial stability in the present (through financial controls)". Hence, strategic leaders play an important role in determining the proper balance for their firm.

**Figure 2.3: The Balanced Scorecard**



Source: <http://www.balancedscorecard.org/basics/bsc1.html>

## 2.8 Summary

As the world economy moves into the 21<sup>st</sup> century, new environmental trends are exerting a profound impact on the patterns of global competition. Navigating effectively in these dynamic, complex and uncertain competitive environments requires astute leadership. As mentioned earlier, for companies to successfully compete in this fast-changing business environment, they need to perform a proper strategic leadership role.

Bettis and Hitt (1995:16) stated that firms exist in “highly turbulent and often chaotic environments that produce disorder, disequilibrium and significant uncertainty”. They also suggest that much more research is required to understand the new competitive landscape and how firms can successfully navigate it.

In this chapter, it has been agreed that dynamic and effective leadership is essential for the success of the organization. Strategic leaders must be able to respond

appropriately and quickly to changes in the complex global competitive environment. The model by Hitt, Ireland and Hoskisson (2003) has been adopted for the purpose of researching how Namibia Breweries Limited can use this framework to ensure that they achieve competitive advantage over their competition amidst the challenges that they face.

The next chapter will look at Namibia Breweries LTD as a case study of an organization faced by the challenges brought about by the 21<sup>st</sup> century.

## **CHAPTER 3: NAMIBIA BREWERIES LIMITED: RESPONDING TO 21<sup>ST</sup> CENTURY CHALLENGES**

### **3.1 Introduction**

The researcher will use a case study method in the study of the research question. This chapter will look at the industry in general, the country (Namibia) profile, and then introduce the organisation (Namibia Breweries Limited) that is going to be the subject of the study. The chapter will mainly look at how the company is responding to the challenges brought about by the 21<sup>st</sup> century landscape.

### **3.2 The Global beer Industry**

Over the last decade the global beer market has undergone considerable rationalization and consolidation. Facing low prospects for volume growth in mature, developed markets and increased competition, brewers have sought growth through acquisitions of other brewers or by aggressive participation in developing or emerging markets, where the potential for growth is high. The largest international companies have bought up many of the local brewers in various markets that have underperformed. In other cases, the leading brewers have formed partnerships and joint ventures with local brewers in order to operate in major markets with very large populations, notably China, India, Brazil and Mexico.

China is said to have the greatest potential in the beer industry in the world, outside of the United States. The country's per-capita consumption is relatively low, creating growth opportunities in the beer category. Increased consumer purchasing power also contributes to improvement in profitability in China. The Gross Domestic Product in China rose 9.1% in 2003, which supports moderated increases in prices, good news to brewers who have invested in the market.

SABMiller aggressively sought to enhance its position as a global brewer in 2003 through a strategy of driving volume and productivity through both its existing businesses and through acquisitions.

The top 10 brewers worldwide account for more than half of the entire world’s beer production. In 2003, world beer production reached 1.478.455.000 hectoliters (hl), broken down as, America: 480 million, Europe: 515 million, Asia: 397 million, Africa: 66 million and Australia, 21 million.

The global beer market grew by 1.7% in 2003 to reach a value of \$266.1 billion. In 2008 the market is forecast to have a value of \$290 billion, an increase of 8.9% since 2003. The market grew by 2.8% in 2003 to reach a volume of 384.8 billion liters. In 2008 the market is forecast to have a volume of 486.76 billion liters, an increase of 26.5% since 2003. The market is dominated by the non-premium beer segment, which accounts for 78.4% of global sales. In 2003 Europe remained the largest market, accounting for 39.7% of global beer sales. This is predicted to remain stable until the end of the forecast period 2003-2008. Beer production in Africa (66 million hl) represents only 4,46 % of the worldwide beer market. Within Africa, production can be broken down as, North Africa: 8,71%, West Africa: 19,85%, Central Africa: 24,04% and Southern Africa: 47,40%. The African market is, however, growing as can be seen in the following table (21.25% increase from 1995 to 2003):

**Table 3.1: Production**

Year	Production
2003	66 177 000 hl
2002	63 164 000 hl
2001	60 181 000 hl
2000	61 500 000 hl
1999	61 270 000 hl
1998	60 034 000 hl
1997	57 968 000 hl
1996	55 905 000 hl
1995	54 577 000 hl

Source: Adapted from Internet (<http://www.skolinternational.com/en/vueglobale.php>)

### **3.3 Country Profile**

Namibia is located in Southern Africa, bordering the South Atlantic Ocean, between Angola and South Africa. The country is sparsely populated, with a population of 2,030,692 (growth rate: 0.7%). The land area is 825,418 sq km with the climate hot and dry (desert) with sparse and erratic rainfall.

The Namibian economy is heavily dependent on the extraction and processing of minerals for export. Mining accounts for 20% of GDP. Rich alluvial diamond deposits make Namibia a primary source for gem-quality diamonds. Namibia is the fourth-largest exporter of non-fuel minerals in Africa, the world's fifth-largest producer of uranium, and the producer of large quantities of copper, salt, semi-precious stones, lithium, manganese, lead, zinc, tin, silver, gold, and tungsten, cadmium, vanadium.

The country's economy is highly vulnerable to external shocks because the sectoral mix, dominated by minerals, affords an unusually low degree of self-sufficiency. More than 50 percent of Namibian output is exported (\$1.09 billion f.o.b. - 2004 est.), while about 60 percent of the goods consumed in the country are imported (\$1.371 billion f.o.b. - 2004 est.). Major trading partners are the European Union, the United States and South Africa.

The economy is closely tied to that of South Africa, which supplies more than 80 percent of Namibian imports. As a result, the Namibian dollar is pegged to the South African Rand.

A two-tier dualistic society clearly reflects the social and economic inequalities. The country is characterized by one of the highest levels of income inequality in the world with a Gini index of 0.70 - the highest recorded anywhere. Poverty is delineated along functional groups and by the urban rural dualism. Wages and salaries received by urban employees are almost two-and-a-half times those in rural areas, reflecting the stark urban-rural inequalities.

84% of the total population aged 15 can read and write. Of this, 84.4 % is male and 83.7% is female. However, Namibia's development is hampered by a scarcity of skilled labour.

Namibia's 2004 per capita GDP of nearly \$13.85 billion is very high by southern African standards, but poverty and unemployment still affect many Namibians and disparities of income are quite severe. Domestic growth is expected to pick up to 3.8% in 2004 from 3.1% in 2003.

The unemployment rate as in 1998 (latest available) was at 35%, and 50% of the population lives below the poverty line.

Total government debt was estimated to reach 30.3% of GDP at the end of 2003/04. This represents a significant increase from the 25.17% of the 2002/03 financial year.

### *Regional Situation*

In the context of regional economic developments, Namibia's economy, as part of the 14-nation Southern Africa Development Community (SADC) suffers from regional conflict, political instability in the Democratic Republic of Congo, a narrow production and export base and a general inability to effectively mobilize and deploy economic resources, both from within and outside the region. The SADC area is rich in natural resources, has a population of nearly 200 million and a combined GDP of some \$180 billion, but its member economies have generally operated well below their potential. While the area has shown positive economic growth in recent years, those rates of growth have been insufficient to attain sustained reductions in poverty and improvements in human development.

### *Social Context*

The first HIV/AIDS victim in Namibia was identified in 1986 and since then HIV/AIDS has become the most serious problem for Namibian society. The country has one of the highest rates of infection in the world with an estimated 19.5 percent of adults (defined as 15-49 year-olds) carrying the disease. The rate of HIV/AIDS infection among the country's population has gone from eight percent in 1998 to 21.3% in 2003. More than 25 percent of all deaths are now AIDS related and in 2003,



the country had an estimated 16,000 AIDS deaths. Aside from the human aspects, the economic and social costs of the epidemic are massive. Direct health expenditures on HIV/AIDS have risen from 1.8 percent of government spending in 1996 to 2.5 percent of GDP in 2000 accounting for 20 percent of the health budget. Unless the increase in the infection rate is contained shortly and begins to drop, Namibia can expect very profound social and demographic disruption, with a corresponding long-term shock to productivity. According to a recent World Bank study, HIV/AIDS will reduce real GDP growth by 1.1% in the period 2002-2010 (from an average rate of growth of 4.1% without HIV/AIDS to an average rate of growth of 3% with HIV/AIDS).

### *Structural Issues*

The structure of Namibia's economy is still highly characterized by the legacy of colonial status of South Africa until the late 1980s. Indeed, Namibia displays developed basic and modern infrastructure with good transport and financial systems. Telecommunications and general infrastructure are amongst the most advanced in sub-Saharan Africa.

### *Trade*

Namibia is an open economy with trade accounting for more than 100 percent of gross domestic product. Namibia's trade is closely linked to South Africa. The share of imports from South Africa has increased in the last years from 80 per cent in 1993 to 85% in 2000. The share of exports to South Africa, accounting for 27% of total exports in 2000, is also remarkable. However, the main market for Namibian exports is the European Union, which accounted for 60% of total exports in 2000. The composition of exports, largely in raw materials, has not changed significantly in the last couple of years and Namibia is still highly vulnerable to external shocks such as terms of trade changes, external demand and climatic variations. Mineral products still represent the bulk of exports. Manufactured products, mainly processed fish and meat preparations, are the second main category of exports.

The main aim of trade policy in Namibia has been the diversification of the export base through various investment packages. The key government policy was the establishment in 1995 of the EPZ programme with generous tax incentives to attract investors.

Namibia follows a largely independent foreign policy and is developing trade and strengthening economic and political ties within the Southern African region. The country is a vocal advocate for greater regional integration and is a member of three regional economic groupings, the Southern African Development Community (SADC), the Southern African Customs Union (SACU) and the Common Market for Eastern and Southern Africa (COMESA).

The country became the 160th member of the United Nations on April 23, 1990, and the 50th member of the British Commonwealth upon independence.

Namibia is seeking to diversify its trading relationships away from its heavy dependence on South African goods and services. The Government of Namibia is actively taking advantage of AGOA (African Growth and Opportunity Act), which will provide preferential access to U.S. markets for a long list of products.

In 1993, Namibia became a General Agreement on Tariffs and Trade (GATT) signatory, and the Minister of Trade and Industry represented Namibia at the Marrakech signing of the Uruguay Round Agreement in April 1994. Namibia has been a member of the World Trade Organization since its creation in 1995 and is a strong proponent of the Doha Development Agenda announced at the Fourth Ministerial Conference in Doha, Qatar, in November 2001. Namibia also is a member of the International Monetary Fund and the World Bank, and participates in the European Union's Cotonou Agreement.

### **3.4 Background/Company History**

Namibian Breweries Limited (NBL) is the only licensed brewer in Namibia. The company represents an investment of R350 million and provides employment for 650 people. It contributes in excess of R140 million in direct government taxes and R15 million for social developments in Namibia.

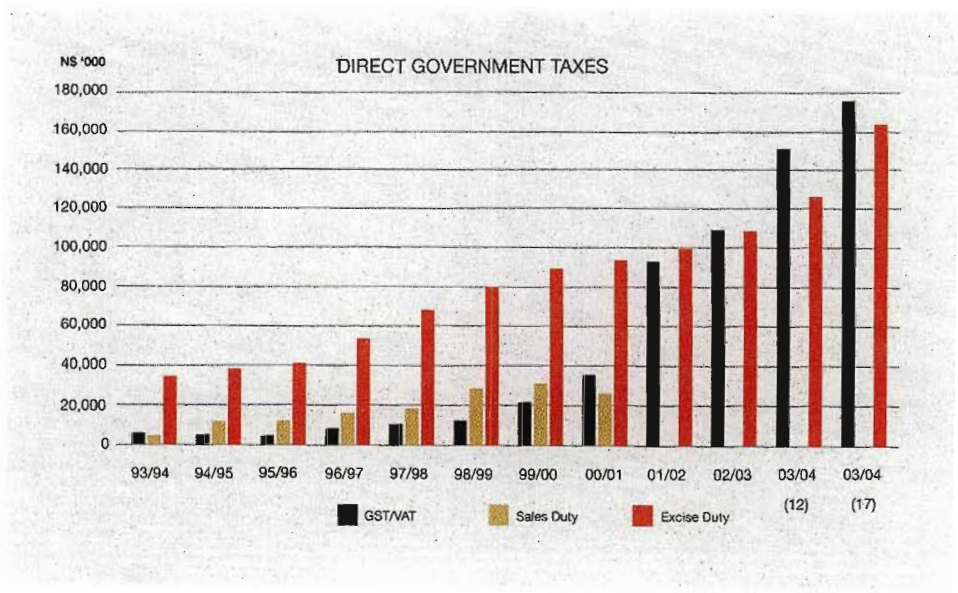
NBL is a major subsidiary of one of Namibia's largest companies, the Olthaver & List Trust Company. NBL shareholding is: Olfitra 28% (through their 56% shareholding in Namibia Breweries Investment Holding Limited (NBIHL) and Heineken

International B.V and Diageo PLC, 28.8% (through their 44% shareholding in NBIHL and 6.8% direct holding in NBL). The Namibian conglomerate Olthaver and List owns the majority stake in the brewer.

Commercial brewing in Namibia commenced with the arrival of German immigrants in 1884. This led to the formation of four small breweries, which were amalgamated in 1920.

The SWB (South West Breweries) was established in 1920 and has ever since being one of the country’s largest industrial concerns. On March 21, 1990, when Namibia gained its independence, SWB changed its name to Namibia Breweries Limited (NBL). In May 1996, NBL became a public company, listing on the Namibian Stock exchange (NSE) and is currently one of the main companies working to enhance Namibia’s economic growth and development. The company is committed to the creation of *wealth* for all Namibians through the provision of employment, creation of opportunities for other Namibian businesses and payment of direct and indirect taxes to Government. In addition, the company encourages responsible consumption of their products and supports a variety of projects in the areas of sport, environment, education, health and small business development.

**Figure 3.2: Direct Government taxes**



Source: NBL reports

All NBL brands (pure natural premium quality beers) are brewed in strict accordance with the Reinheitsgebot (better known as the German Purity Law of 1516, the oldest food law in the world). This law was promulgated by Duke Wilhelm IV of Bavaria and prohibits the use of any ingredients other than malted barley, hops and water. Namibian beers are therefore naturally free of chemical additives, stabilizers, colorants or preservatives. This brewing methodology is what differentiates Namibia Breweries (Nambrew) from most African brewers. All ingredients are certified free of Genetically Modified Organisms (GMO's).

Due to the unfavorable climatic conditions, the main raw materials, barley and hop, cannot be grown in Namibia. To ensure the constant high quality of products, all raw materials used in the brewing process at NBL are imported from Germany. Samples are also regularly sent to Weihestephan, a leading German brewing institute in Munich, where the product is evaluated against quality standards prevailing in Europe. The only raw material sourced locally is the brewing liquor.

NBL is the only recognized commercial independent brewery in the SADC region that has not been taken over by SABMiller and today produces and sells approximately 1.3 million hl of beer, accounting for approximately 75% of the Namibian beer market and 35% of the South African (SA) premium beer market.

The company has two production facilities, the main plant in Windhoek and a smaller one in Swakopmund. The company's total brewing capacity is 1.7 million hectoliters. This capacity can be increased to 2 million hectoliters with a minimal capital investment.

In South Africa, an extensive modern depot and national office, in Gauteng, coordinates and controls the marketing sales and distribution functions throughout South Africa.

#### *The Joint Venture Brandhouse (JVB)*

In July 2003 Heineken and Diageo acquired a combined stake in Namibia Breweries. The two companies bought Interbrew's shareholding (held through Brauerei Beck's) of 44% in NBL Investment Holdings Limited and 6.8% shares directly in NBL. The

agreement was for NBL to brew and distribute Heineken (which was previously owned by SABMiller) in Southern African. This partnership positioned NBL to become a truly international business. The company needed to expand its capacity by 20% (from 1.4 million hectoliters a year to 1.7 million hectoliters a year) to cater for the brandhouse joint venture. The benefits the three expect to derive from the joint venture stem from Heineken's extensive global and African experience and knowledge in the beer sector; Diageo's world-wide stable of leading alcoholic brands and NBL's established position in South Africa's growing premium beer segment. The Joint Venture Brandhouse puts such brands as Heineken and Guinness at NBL's disposal, and should put them in a good position to take on SABMiller in the lucrative premium beer market.

Further, the Brandhouse is now in a position to exploit economies of scale and synergies in its wider distribution network.

### **3.5 The product**

The slow and careful process, according to the Reinheitsgebot, taking three to four weeks, produces a natural beer with an outstanding fresh taste which compares favorably with any international, premium brand in quality and purity. Keeping a watchful eye on quality, Nambrew products are quality assured at every stage of the brewing process to ensure ultimate brand uniformity, excellence and purity.

NBL produces various beer brands, each with its own characteristics to meet the demands of specific segments of the company's discerning consumer base. All house brands are brewed according to the Reinheitsgebot.

Additionally, Beck's Pilsener (taken over by Interbrew in 2001), Holsten (under license from Holsten-Brauerei AG in Germany), and Guinness (by Diageo) are brewed and distributed under license and marketed through NBL's well-established sales and distribution networks in Namibia and South Africa. Also, through the JVB, NBL brews Heineken at its Windhoek plant. Furthermore, up market schnapps products under Störtebeker and Rittmeister labels are produced by NBL.

*Windhoek Lager* is a top quality beer with a wholesome barley malt aroma, mild bitterness and a golden color. *Windhoek Draught* is a premium beer, mild in bitterness with a rich golden color and makes for easy drinking at any occasion. *Windhoek Light* is a refreshing, crisp, light beer, and is low in alcohol, carbohydrates and kilojoules. It delivers a full strength taste and is suited to healthy living, for the health conscious beer lover. *Windhoek Export* is a premium beer, with a distinctive hops flavor and is suitable for the discerning beer drinker. *Beck's* has uncompromising quality, freshness and pure pilsener flavor. *Das Pilsener*, with finest aroma hops in perfect balance, is a perfect compliment to any meal. *Windhoek Special* is slightly stronger, yet smooth. *Heineken* is all pleasure and enjoyment for everyone. *Tafel Lager* is a fine quality, smooth tasting natural lager with a wholesome flavor and aroma. *Urbock* with only limited stock available annually during the month of May, is a traditional winter beer. *Club Shandy* is the finest lemonade, has a cool, crisp refreshing taste and is low in alcohol. *Pampelmusenschnapps* is a high quality, natural flavored grapefruit schnapps. *Maracuja* is a blend of high quality fine spirits and exotic passion fruit. *Rittmeister* is a fine herbal digestif liqueur.

Tafel Lager is the preferred mainstream beer in Namibia, and dominates the market. It is also very popular in Angola. All other brands compete in the premium and super premium beer segments, where NBL has established itself as a recognized force with a superior basket of products. This is supported by a specialized marketing, sales and distribution infrastructure, which spearheaded NBL's significant inroads into the premium beer sector of the South African market, where it currently has far in excess of a third of the premium market.

NBL also has its own range of soft drinks under the McKane brand and is involved in the production of various carbonated soft drinks in selected markets. The company is also the official bottler of the Pepsi Cola product range in Namibia, which include: Pepsi Cola, Diet Pepsi, Mirinda, Mirinda Lemon, Mountain Dew and 7-Up.

### **3.6 The Namibian Market**

During 2004, the Namibian economy was characterized by a stronger currency, reduced inflation, lower interest rates and increased discretionary spending amongst

middle and higher income groups on the one hand, but on the other, reduced spending by lower income consumers who comprise the majority of citizens of the Southern African region.

Locally, there is hardly any differentiation in the beer market. Despite the presence of locally brewed and imported premium brands, the majority of the market comprises mainstream consumers. In the absence of the premium concepts as an effective marketing tool (for significant local volume growth) the battle for Namibian market share seems to have boiled down to price.

The growing impact of HIV/AIDS, the continued inability to create jobs for school leavers, leading to high unemployment levels among the key 18 to 24 year old male consumer population and adverse weather conditions in many agricultural areas, continue to erode the already limited spending power of consumers. The domestic market for alcoholic beverages experiences muted growth which, coupled with the growth in popularity of low cost high alcohol by volume drinks, resulted in a volume increase of 1.9% for the past year, mainly led by beer.

An issue that contributed to the growth in the consumption of beer in the alcoholic beverages industry is the correction of the current discriminatory level of excise duties applied to this product. Excise duty on beer was increased by 9% compared to 13.8% on wine. This brings the duty structure in the region closer to international levels. Moving forward, it is anticipated that the Southern African regional economy will experience an accelerated growth in excess of 3% as policies aimed at stimulating GDP growth are implemented.

With regard to growth, macro-economic factors such as the AIDS pandemic's impact on the disposable income of LSM (Living Standard Measures) one to six consumers will continue to put pressure on category margins, and price competition will continue to escalate. The challenge to face increased price competition in the mainstream beer and carbonated soft drink categories whilst growing market value share, will require structural cost adjustments. Strategies are in place to achieve this, although much will depend on fair and equitable competitive practices by NBL's competitors, both locally and in other markets where NBL competes directly.

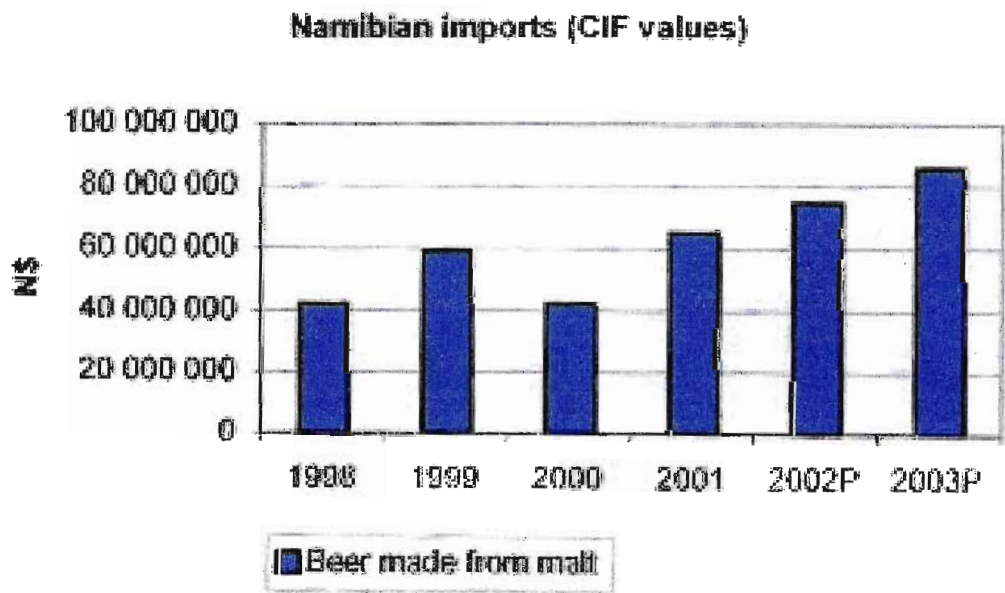


Namibian volumes are estimated at about 900,000 hectolitres per annum. NBL commands about 75% of the market. With a Gini-coefficient of 0.70 (SA: 0.56) and per capita consumption of food, beverages and tobacco of R3, 897 (SA: R4, 999), the local market is extremely price sensitive and preference for cheaper SAB mainstream products is growing. As a result NBL's 75% share of the market is under determined assault by SAB.

The majority of the Namibian population is rural based. According to the 1999 levels of living survey, the average rural household earned R283 per month, while the significantly fewer urban households earned an average of R1, 047. This price-sensitive nature of the majority of the population results in a declining local market share for NBL, as consumers favor cheaper SABMiller products.

Imports of malt beer have been rising since 2000 and it is believed that most of these volumes originate from SABMiller.

Figure 3.3: Namibian imports



Source: SSS report



### 3.7 Competition

Fierce competition in the local market over the past number of years led to a continued cannibalization of the local mainstream market share.

Through dedicated commitment over the years, NBL product ranges have succeeded in establishing brand equity in the market place and will continue to exploit its competitive differentiated advantage achieved through the adoption of the Reinheitsgebot production process, to satisfy the needs of increasingly discerning consumers.

Nambrew's long-term success will depend on its ability to build and develop a balanced portfolio of brands to satisfy consumer needs. Through research the company has improved its channel and market segmentation, consumer understanding, brand positioning and marketing investments.

Competing in the premium beer segment in SA opened up a new and exciting opportunity when the company took over the distribution of Heineken from SABMiller in July 2003, after which they gradually increased the growth in volumes. This led to SABMiller introducing new premium brands into the South African market (e.g. Miller Genuine Draft) creating an even greater awareness of this segment.

Nambrew welcomes competition both as a mechanism to develop operational excellence and the positive spin off it has in terms of offering consumers different choices. The company, however, insists that competition should be along level playing fields and engages in efforts to ensure promulgation of appropriate legislative mechanisms such as anti-trust and competition laws to ensure that fairness and equity prevail in the marketplace.

In South Africa, NBL's South African premium segment volume growth lagged behind that of the market due to intense pricing competition and an increased number of players. NBL has made it apparent that they will not engage in price wars with

SAB and has focused on promoting and increasing its distribution network in South Africa's premium beer segment while continuously exploring other export markets.

NBL faces aggressive competition in Southern African markets, but in particular from its main rival, SABMiller.

### ***3.7.1 SABMiller- NBL's main rival***

South African Breweries (SAB) acquired The Miller Company in 2002, and was consequently renamed SABMiller. The group then made a bold entry into the hard-nosed US market in 2002, integrated its new Central American beer and soft drinks operations, and continued its expansion in Europe, China, India and certain African countries.

The company now is one of the world's largest brewers with a brewing presence in more than 40 countries across four continents. It has more beer brands in the world's top 50 than any other brewer and it ranks among the top three brewers in more than 30 countries.

SABMiller has cheap products and as a result has a hold on the Namibian market. Their products are; Castle Lager, Castle Lite, Castle Milk Stout, Hansa Pilsener, Carling Black Label, Sterling Light, Brutal Fruit, Redds, Miller Genuine Draft, Amstel, and Pilsner Urquell.

The company has a distinct hold on the volume driven mainstream market. It holds about 98% of the SA beer market and 57% of alcohol consumption in SA. The proportion of premium brands in its product mix is now about 10%. SABMiller has always enjoyed a competitive advantage on brewing in Southern Africa from ownership of the raw materials used in brewing, to a distribution network second to none, due to its large regional mainstream market presence.

For the nine months to the end of December 2004, SABMiller reported a 4% rise in its beer sales volumes in South Africa.

The company is attempting to enter into Namibia, setting up a bottling plant and brewery, with the aim of tapping into the larger Angolan and Democratic Republic of Congo markets. The SAB investment foreseen is worth of R100 million.

Hitherto, the Namibian government has been able to keep SABMiller away, maintaining that it would not support any foreign monopoly at the expense of a local competitor. NBL claims that the market is too small to accommodate another brewery and that should SABMiller succeed, it would be forced to close one brewery with a loss of 200 jobs, as well as loss of revenues.

The Namibian government also accuses SABMiller of trying to take over the region, by squeezing out small competitors. Furthermore, SABMiller is accused of wanting to liquidate NBL with the aim of entrenching its monopoly in Southern Africa. So far, SABMiller had established itself in Botswana, Swaziland, Lesotho, Tanzania, Uganda, Mozambique, Zambia, Angola, Ghana, Malawi, Zimbabwe and the Seychelles. They have done this by either taking over the local brewers through mergers or by taking control of management. It has a market share of some 97% in the Southern African Customs Union (SACU) region and 70% in Africa. It thus holds the position of market dominance, and with the fact that NBL is commonly acknowledged as the only remaining competitor of SABMiller in SACU, it is said that SABMiller's intention is to undermine NBL in Namibia and drive it to closure. Meyer Kahn, SABMiller's Chief Executive is reported as having declared in no uncertain terms: 'The beer market is ours and everybody (had) better understand this'.

On the other hand, the Namibian Government has been accused of not upholding the principles of a free market economy. Namibia forms part of a free-trade area according to the (SACU) agreement and SABMiller insists that they should be a free market. In addition, SABMiller had claimed that the Namibian Government is trying to protect NBL and accused it of using unfair business practices. NBL, however, maintains that even though Namibia belongs to a free trade area, the agreement works in favor of South Africa and would crush smaller markets such as Namibia.

### **3.7.2 SAB-NBL “war” continues**

The NBL’s opposition to SAB’s expansion into Namibia has been backed by the Namibian Economic Policy Research Unit (Nepru) which said the SA brewer’s proposed investments was contentious and criticized the company for being anti-competitive. The research unit said while increased competition in the Namibian market should be welcomed, the overwhelming size of SAB and the aggressive tactics it used in other countries provided an indication of anti-competitive behavior.

According to the Namibian breweries, SAB, through their anticompetitive tactics, continues to aggressively pursue its stated mission of eliminating any form of substantive competition to its position of unrivaled dominance in the Sub-Saharan African beer market.

Further, NBL accused SAB of offering its products on the Namibian market at “dumping prices”. It said the Namibian beer market was well served and had reached a stage of saturation.

NBL used certain criteria to justify their claim that it faces unfair competition from SAB on the Namibian market through dumping and has suffered material injury as a result thereof.

Some of these criteria are:

- There has been an increase in imports of SAB beer into Namibia.
- SAB is consistently undercutting NBL’s prices in Namibia
- NBL has been suffering price suppression, as NBL is not able to recover cost increases through price increases
- NBL’s sales volume of beer packed in 750ml bottles (‘quarts’), the subject product, have decreased over the period under consideration
- Production of ‘quarts’ have decreased over the period concerned

### **3.8 NBL Exports**

Limited real volume growth opportunities in the local beer market leave NBL with no option but to look for growth in export markets. The more robust currency, however, made exports less price- competitive in foreign markets.

NBL exports to 22 countries worldwide representing 60% of total production. The South African market plays a crucial role in the overall business strategy of NBL due to its size and clear market segmentation, and is the company's main export market. Angola is the second largest market after SA and continues to display great potential. Other African markets are Botswana, Zimbabwe, Zambia, Mozambique, Kenya, Tanzania, Malawi, and Nigeria. Other export markets are Mauritius, Comores, Australia, New Zealand, USA, Germany, Sweden and the United Kingdom. The United Kingdom with its high number of South African expatriates is an important market where NBL's brands (Windhoek Lager & Windhoek Light) have established a small but viable niche.

The export markets (and in particular Angola) remain a challenge. 30 per cent of the group's revenues are derived from the Angolan market. The final ratification of the Bi-lateral Preferential Trade Agreements, which was signed by Namibia and Angola in March 2004, will enhance trade between the two countries and is expected to have a positive impact on NBL's ability to compete in that market.

NBL's strategy is to grow a sustainable export business and as part of this, the company is investigating new market opportunities, specifically in the SADC region, without neglecting international markets. South Africa and Angola have the greatest growth potential compared to other markets.

The following has been challenges in export sales;

- The introduction of high import duties and the imposition of complex importation procedures by the Angolan authorities in February 2003 had a negative effect on export volumes to that territory.

- The continued strong performance of the Namibian Dollar against other major currencies diminishes the company's external competitiveness, which placed export sales volumes and earning under pressure.

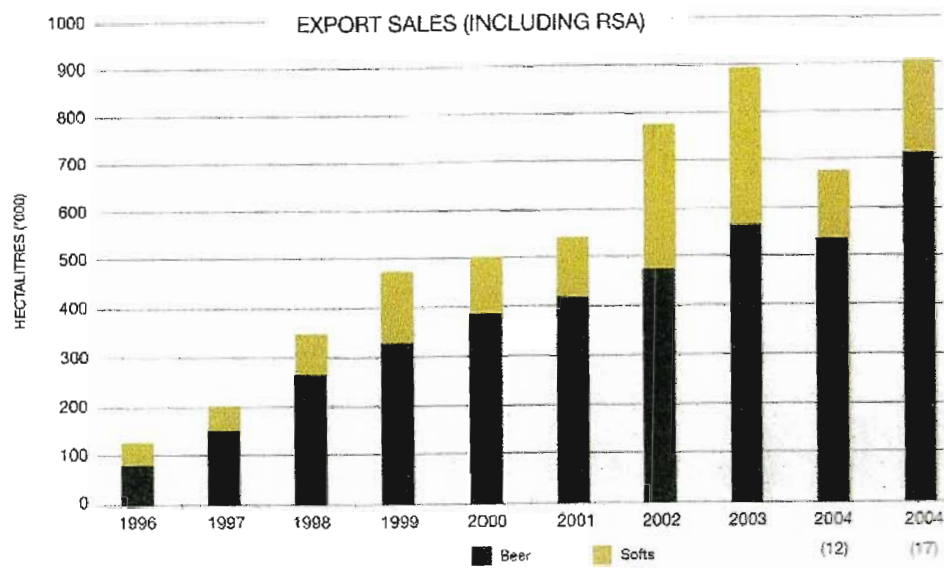
Despite strong competition from other international brands, Windhoek Lager in particular, has been enjoying increasing acceptance amongst the more sophisticated beer drinkers in selected markets in the SADC region. Increased market investments will support improved brand awareness. The opportunity of joint distribution of the three partners' (Diageo, Heineken and Nambrew) brands in selected markets is continuously monitored and evaluated.

As Namibia is a country of vast distances and high temperatures, the company has taken some precautions for the transport of its products. Namibia Breweries Limited, true to its quality standard, uses only the most efficient ways to transport its beers. The company has a large fleet of trucks, which transport all products throughout Namibia and to South Africa, Botswana, Zimbabwe and Angola. Also, the specially designed packaging of all NBL products ensures that the quality of the products is maintained and that they reach their destination without any changes to taste and quality.

The use of tinted glass beer bottles, brown and green glass bottles, is used for the various beer brands. This retracts the rays of the sun and protects the beer from reaching 'warm' temperatures. All products are first packed onto pallets before being loaded onto the trucks. This helps to stabilize the load. The pallets are then secured with pallet straps and covered with strong tarpaulins. This is also to prevent the sunlight from heating the products.

All beers brewed by Namibia Breweries Limited are guaranteed for a shelf life of nine months.

**Figure 3.4: Export sales**



Source: NBL reports

**3.9 The South African Market**

Within the South African beer and allied industries, NBL has over the past decade established itself as a formidable player in the market. Against significant odds, it has made major inroads in its market segments of choice and has clearly emerged as the official competitor in a monopoly dominated market.

Beer dominates the alcoholic drinks market in South Africa and was the fastest growing and top-selling alcoholic beverage in 2004. It makes up about 54% of the value of the overall liquor sales. South Africa’s beer and Flavored Alcoholic Drinks (FAD) volume growth has been taking place at the expense of traditional sorghum, spirits, fortified wine and more recently, natural wine. The main beer players are SABMiller, JVB (NBL), Bavaria Brau and the microbrewers, with NMK Schultz importing a wide range of international premium beer products.

The premium beer segment is the fastest growing segment of the South African and world beer markets. In 2004 growth in SA was an excellent 18%. This has resulted in

increased competition in this segment as directly imported brands enter the market. The segment accounts for 6% of the *beer market*, which is currently growing at more than 3% a year. The premium beer market represents about R13bn or 5% of the total market's 26m hectoliters. NBL has a 35% share of the South African premium beer segment, which is the company's main export market. The company, however, aims at capturing 50% of this market.

The lucrative premium niche of the beer market sells 1.5 million hectolitres (39 million gallons) a year in South Africa and is expected to double in size within the next seven years.

During the year 2004, JVB enjoyed success with its Heineken, Windhoek Lager and Windhoek Light brands gaining ground from other spirits and moving up in the popularity stakes. Windhoek Lager was the 13<sup>th</sup> most popular Liquor brand in the year, Heineken came in at number 31 and Windhoek Light at number 40.

The South African operation mainly sells Windhoek Lager, Windhoek Light, Das Pilsener, Beck's Pilsener and Club Shandy, and is run from a 7 600m<sup>2</sup> state-of-the-art head office and distribution centre in Linbro Park, Johannesburg, with depots and sales staff in all major centres across South Africa.

Windhoek Lager is the most sold beer mark in South Africa.

### **3.10 The company**

The main strategic drive is the growth of the brands in the premium sector of SA and other export beer markets (Annual Report 2003). A continued growth will be achieved if the company protect its Namibian market, ensure that year-to-year an acceptable return on investment is achieved and continue to build on the strength of its brands.



### ***3.10.1 Strategic direction***

#### *Vision*

In 2004, the company adopted a new vision statement, which better represents what it believes, will drive its future:

*We share, like no other, the ultimate choice of PURE enjoyment.*

This new vision embraces the value proposition the company offers all stakeholders as it speaks of openness, quality, choice, sustainability and value.

#### *Mission*

We are a highly regarded, innovative beverage supplier.

We are leaders in technology and take pride in the quality of our products and services that provide superior satisfaction.

We are growth and profit oriented to ensure continuity of our business through proactive management and diversification.

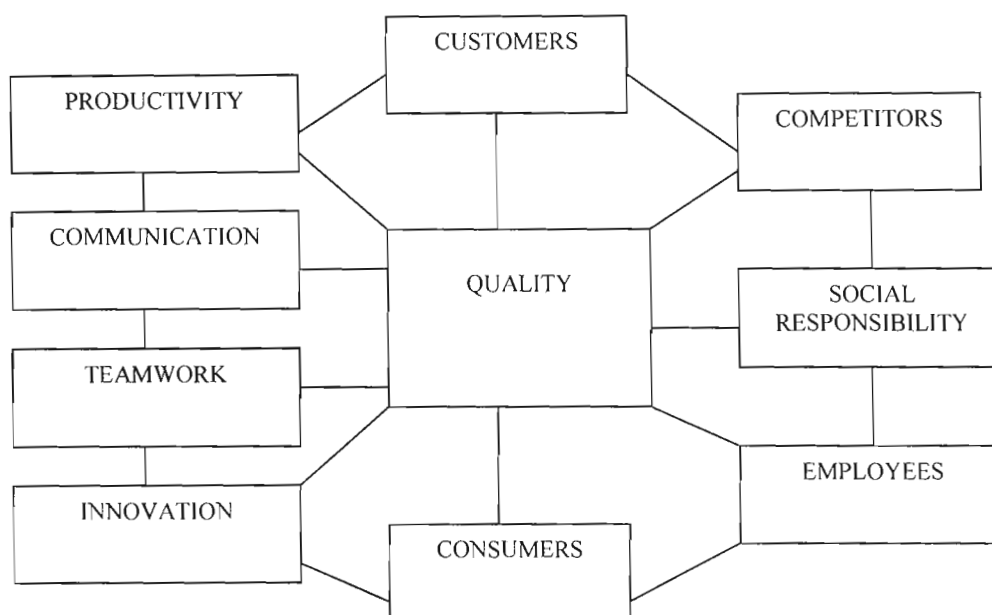
We create the environment for employees to grow personally as the company grows. Our work life is exciting, challenging and rewarding in an atmosphere of teamwork and mutual respect.

We are socially responsible and strive for the betterment of society and the environment we live in.

#### *Values*

Our values are an extension of our vision and mission, which link them with our objectives and action plans. These values are those factors that separate us, as a world-class company, from the rest. The values help managers to concentrate on the few critical factors that underpin performance. The values provide an umbrella for many key ideas and provide a road map for behaviour.

**Figure 3.5: NBL Values**



Source: NBL reports

*Quality-* We believe that QUALITY is an ongoing process of change and improvement directed towards the aim to exceed the ever-changing expectations of our customers.

*Customers-* We put our customers first.

*Consumers-* Our overall business strategy is driven by consumer needs.

*Competitors-* We want to be Number 1

*Employees-* We tap the energy and ingenuity of all our people by challenging them to reach even higher, ever further.

*Teamwork-* We know that cooperation (teamwork) creates synergy, and synergy leverages resources.

*Innovation-* We know that it is not enough to continually create new products or improve old ones - new ways of doing things are just as important.

*Productivity-* We rigorously control costs so that revenues grow ahead of resource use.

*Communication-* We know that communication is the glue that holds everything together.

*Social Responsibility-* We take cognizance of the impact of all our activities on the environment in which we operate.

### *Strategic Intent*

Namibia Breweries Limited will, by the year 2008 be a highly regarded player in the beverage industry by building world class brands and execution capabilities to extract the maximum value from defined target markets. We will have joint ventures with strategic local and foreign partners to jointly leverage distinctive capabilities that have special value to each particular market. We will derive the maximum value out of a market share of minimum 80% of the Namibian Beer Market. We will consistently deliver best-perceived value to customers via the best brand and beverage portfolio derived from consumer insights at benchmarked cost. We aim to own the Number 1 and Number three brands per category. By 2008 we will have built the skill to consistently achieve 10% of the total economic value by innovation in the categories: brands, technology and systems. We want to be the most respected company in Namibia. We want to be the first address for employees, suppliers, customers and consumers.

### *Strategic themes*

- The best performing Beverage Company in Namibia
- A positive EVA by 2008
- 10% EBIT derived from Innovation
- 5% fixed Overhead Cost Reduction through outsourcing to BEE SME's
- Mental Leadership in terms of Brands, People, Communities and Organization
- 75% Volume Market Share in Namibian Beer Category
- To own the No. 1 and No. 3 Beer Brands in selected categories
- Access to new markets through selected Joint Ventures and Strategic Collaboration
- Run Supplier and Channel relationships based on Collaborative Networks
- The preferred Production Platform for Southern Africa

### *Purpose*

To share the ultimate choice of pure enjoyment with stakeholders

#### **3.10.2 Critical Success Factors**

- Competent Leadership
- Corporate Positioning and Image
- Long-term Shareholder Value
- Market Equity (Customer Equity and Brand Equity)
- Employer of Choice Status
- Operational Excellence (speed to market, supply chain, support functions)
- Brand and Channel Profitability
- Performance Management and Reward
- Information and Knowledge Management (ability to analyze, market knowledge)
- Leaders in innovation
- Investment in capacity
- Capability to identify the best-fit Business Partners (ability, experience, capacity)
- Competence to manage external (supportive) resources
- Assessing the risk associated with new initiatives

#### **3.10.3 Core Competencies**

NBL's success lies in their purity. Consumers increasingly demand purity and are increasingly demanding more "healthy" products. The company's adherence to the Reinheitsgebot purity law- which prohibits the use of any ingredients other than malted barley, hops and water- enables the company to achieve this, as the Namibian beers are naturally free of chemical additives, stabilizers, colorants or preservatives.

NBL has the ability to constantly come up with various products to meet the demands of specific segments of the company's discerning consumer base.

### **3.10.4 Challenges**

- The development of sustainable export markets, and the import of materials required in the production process.
- The recapturing of the local beer market, competing with SAB's cheaper products.
- Establishing an ever-increasing presence on global markets.

### **3.10.5 Human Resources**

Ongoing training and development of employees provides for constant updating of skills and knowledge, which is critical in the rapidly changing business environment in which NBL operates. Part of the company's intent is to align its human capital with the functional requirements of the industry and the underlying volume growth strategy.

Every year the company embarks upon various training interventions, which involve employees across all levels. At the end of the 2002 financial year, 1065 training interventions took place, which involved 543 employees. At the end of the 2003 financial year, 1,118 training took place, whereby 532 employees benefited, and at the end of the 2004 financial year, a total of 2,471 training interventions took place, whereby 476 employees were exposed to training. During the year 2004, interventions concentrated mainly on job specific learning, generic competency development, management and supervisory development and business focused training.

Nambrew view its human capital as a key differentiator and aim to further develop and improve competencies, not only to enhance and improve the company's corporate efficiency, but also for the broad development of the people of Namibia. Extensive development programs to further enhance core competencies will remain an important drive in future. This has already begun to compliment the intrinsic value that NBL's products have delivered over the years via NBL's *Reinheitsgebot* promise.

Further, the investment of the world-class companies, Heineken and Diageo, in Nambrew has led to the introduction of best-practice execution of the company's

operations and transfer of skills to Namibians.

During 2002, the company was awarded with the certificate of compliance relating to the affirmative Action Employment Act. The Employment Equity Commissioner commended NBL on its three year AA plan to achieve equal representation in different level of job categories, as well as the company's intention to initiate new policies to achieve the objectives enshrined in the legislation.

With due recognition of the detrimental effect the HIV/AIDS pandemic has on the social and economic fabric of society, NBL has developed a Policy to introduce workplace-based activities to address the impact of the disease in the work environment. The policy incorporates a Code of Ethics and provides guidelines to deal with the incidence of the disease in the company environment. Specific components of the policy also include blueprints relating to prevention, education, counselling and effective management of the risks associated with the disease. In this regards, NBL has taken a lead within corporate Namibia to formalise the management of the pandemic within the realm of business.

At the end of the financial year, the Group had 690 permanent employees across Namibia (January 2003: 733), of which 83% are designated employees.

#### ***3.10.6 Performance Management System***

Nambrew also pursues processes to ensure fair remuneration practices and alignment of people and work. By reviewing remuneration principles against independent salary surveys, and ensuring that salaries are in line, the company ensures that it remains one of the preferred employers in Namibia. As a result, the company introduced a Performance Management System, which became effective in July 2004. Through this system, the Company will focus on enhancing and rewarding performance in line with its business goals and objectives. After an initial period of introduction, the first official measurements of performance were due in November 2004 and the first performance-based remuneration review was to be conducted during August 2005. Employees' salary increases and bonus payments will, in future, be related to their performance. The company's ultimate goal is to achieve alignment of the Company's

performance, individual performance, and the manner in which staff contributions are measured and rewarded.

#### ***3.10.7 Code of Ethics***

The company has adopted an internal code of ethics as part of its corporate governance, committing the group to the highest ethical standards. The code spells out the group's commitment towards shareholders, customers, suppliers and the community at large, as well as policies and procedures regarding the personal conduct of management and employees.

#### ***3.10.8 The Balanced Scorecard***

Nambrew started some time ago with an ongoing process to align their business with the requirement of the new economic environment in which they operate. To achieve this requires the development of good business strategies and efficient operations to deliver the products and services required to implement the strategies. For the company to achieve this strategic and operational excellence, Nambrew chose the Balanced Scorecard as its future performance management tool.

The Balanced Scorecard (BSC) as adopted by Nambrew will direct where the company should be heading and what is expected of each staff member to assist in getting there. Once the employees know where they are going and what they should do to get there, they need to measure how well they are performing.

The BSC in itself is a cultural change initiative, creating a culture of continual focus on strategy formulation, measurement and revision. As this was not done in Nambrew in the past, the BSC enables the company to create this new culture.

#### ***3.10.9 Financial Performance***

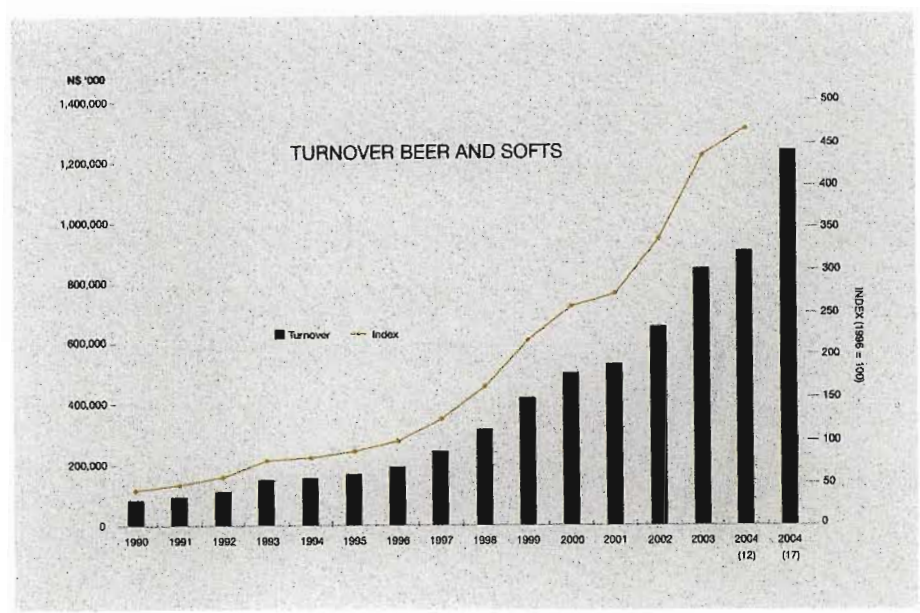
Following the introduction of its new partners, Nambrew underwent a series of changes ranging from management to capital expansion, in order to better position itself for the increasingly competitive SA market and regain any local market share that may have been lost by reduced focus on local sales. Nambrew's volumes are a critical determinant of the group's earnings in an arena characterized by battles of

giants where smaller players are swallowed-up, usually opting to trade inefficiencies caused by their size for synergies offered by a larger network.

Turnover

The turnover for the 17-month period under review increased to N\$1.3 billion. This was mainly driven by increased beer volumes in SA, which included Heineken sales since May 2003.

Figure 3.6: Turnover



Source: NBL reports

Total revenue increased with 47% from N\$878.9 million for the twelve months ended January 2003 to N\$1.3 billion for the seventeen months ended June 2004. Revenue for the twelve months ended January 2004 increased with N\$65.6 million or 7.5% if compared with the same period in the previous financial year, whilst an increase of 2.3% was realized for the five months ended June 2004 compared to the same period last year.

The increase in turnover was primarily driven by the increase in beer volumes in South Africa, which together with other exports represent 60% of the Group's revenue. Nambrew commenced with the importation and distribution of Heineken in



South Africa during the month of May 2003, which significantly contributed to the increase in revenue.

There was a general price increase in February 2004, which was in line with inflation in both the Namibian and South Africa markets, while export pricing to other countries remained under pressure due to the strong N\$/ZAR.

### *Beer*

Overall beer volumes for the twelve months ended January 2004 increased by 4.1 % if compared to the same period in the previous financial year, while volumes declined with 2.6% for the five months ended June 2004 versus the comparative period ended June 2003. South Africa and other export markets contributed 60% of the total volumes sold versus 48% the previous financial year. This is in line with the Group's strategy to increase sales to other export markets, thereby improving production utilization in Namibia, resulting in a reduction in cost and increased margins. For the last six months to December 2004, the beer segment's contribution toward the overall volumes showed an increase of 5% in Namibia and 2% in South Africa.

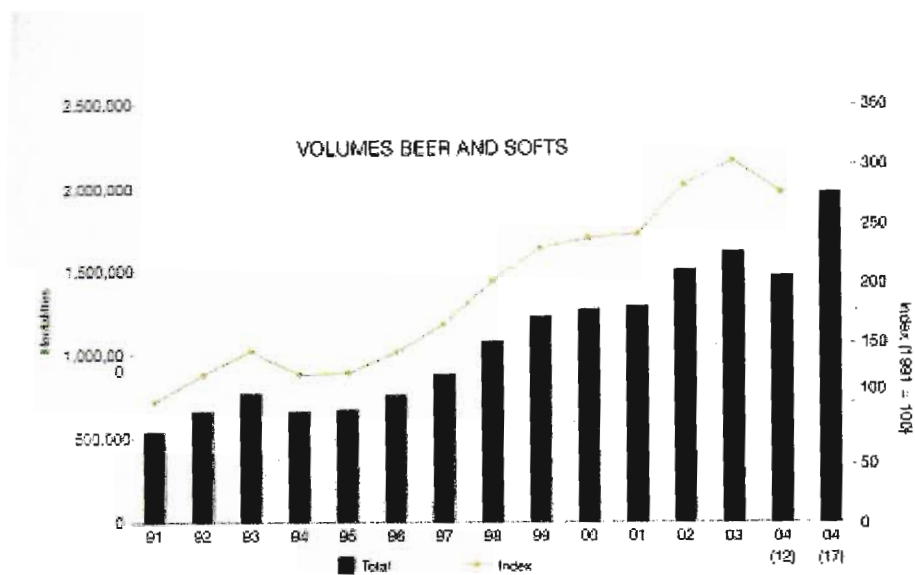
Annually, NBL sells N\$350 million worth of beer in the South African market. Exports volume went down by 1%, which the brewer said is mostly due to border restrictions at the Angolan border posts.

The premium sector continues to grow faster than the mainstream brands, mainly driven by the returnable bottle market led by the Amstel brand (owned by Heineken and brewed under contract by SAB).

### *Softs*

Overall softs volumes for the twelve months ended January 2004 decreased with 47.3% if compared to the same period in the previous financial year, while volumes declined by 31.2% for the five months ended June 2004 versus the comparative period ended June 2003. Export markets (excluding South Africa) contributed 53% of the total volumes sold compared to 73% for the previous financial year.

Figure 3.7: Volumes (Beer and soft drinks)



Source: NBL reports

Annualised 2004 soft volumes retreated to pre 2002/03 levels while volumes for the 17 months were significantly lower even when compared to the previous 12 months. Although annualised beer volumes that are the main driver of revenue fell (the annualised period contained two low volume months), annualised revenue from beer sales continued to increase.

Soft drink volumes continued to fall as bottlenecks regarding exports to Angola continue to plague Nambrew. Since most of total revenue is derived from the sale of goods, the company thought it safe to assume that revenue growth was supported by distribution (mainly of imported Heineken) rather than production. This shows the revenue potential of brewing Heineken locally and the advantages of distribution alongside Heineken. Management is, however, concerned that the declining operating profit per hectolitre brewed may be contagious and catch on to the Heineken production too.

The rate of increase of operating expenses has always been higher than that of revenue since 2000 resulting in a narrowing gap between the two, particularly in annualised 2004.

Operating profit never quite recovered after an 11.6% drop experienced in 2002, and annualised 2004 operating profit fell 63.1% from 2003. Even the operating profit for the 17-month period was 47.7% lower than the 12 months ended January.

### **3.11 The road ahead**

As mentioned, the company's main strategic drive is to pursue growth. In order to succeed in its growth strategies, the company will continue to focus on the following four major strategies (Annual Report 2004):

Firstly, to continue driving the benefits inherent to the internal change processes, which the company embarked upon, and in doing so, align the company to international best practices by capitalizing on opportunities brought about by the new Heineken and Diageo partnership. This new relationship has provided access to new technologies and technical assistance leading to a potential increase in margins due to better brewing planning and production processes. The challenge remains to further reduce production costs and working capital while maintaining quality.

Secondly, the company intends to recapture a greater share of the Namibian domestic market through improved investments, systems, service levels and upskilling of the staff. The domestic market is likely to remain extremely competitive in the short term, but a favorable medium to longer-term outlook for the regional economy leads us to believe that consumer demand for premium alcoholic beverages will strengthen, driven in part by lower inflation and interest rates.

Thirdly, the company will increase volume growth by continuing to develop export markets. The company is confident that sales to Angola will improve once the bilateral agreement has been ratified. It is anticipated that the Brand house Joint Venture will grow their business in South Africa, resulting in real growth in earnings, in the future.

Finally, the company will continue to lower their cost structure by capitalizing on the newly introduced shared services concepts, to enable them to increase profits in line with volume growth.

### **3.12 Summary**

The focus of this chapter was to provide an overview of the company under review, the Namibian Breweries Limited, the industry it operates in, and the Host country, Namibia. The chapter shows the current situation and will form the basis of the analysis in the next chapters.

The next 2 chapters will focus on the analysis of NBL's competitiveness. Using various tools (explained in Chapter 4), the company's performance will be analyzed (Chapter 5). Also, to determine the competitive position of the company, an analysis will be done on its main rival, SAB. The two companies' financial performances will be compared, using various financial tools.

## **CHAPTER 4: TOOLS FOR ANALYSIS**

### **4.1 Introduction**

Every company aims to earn above average returns and achieve competitive advantage. This means, responding efficiently to the new competitive landscape. In order to do this, they need to put effective strategies in place. Various authors concur (as indicated in chapter 2) that core to this is the leadership as they are responsible for the successful implementation of strategies. Effective strategies lead to competitiveness. In assessing or analysing whether the leadership has been successful, that is, whether they were successful in putting in place effective strategies, it is important to look at the competitiveness of the company.

The main aim of this research therefore, is to assess NBL's strategic position at present, whether they are strategically positioned to face the challenges of the 21<sup>st</sup> century, whether they are in a competitive position to deal with these challenges.

In order to determine this, the company's resources capabilities and competitive strength is evaluated against rivals. Various techniques as identified by Thomson et al. 2005 and Luffman et al. 2000 will be used to explore this. These are the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis, the financial analysis, and the competitive strength assessment.

Further on, as Donald Kress so boldly noted "the real question is not how well you are doing today against your own history, but how you are doing against your competitors" (Thompson et al. 2005:86). It is hence important for a company to evaluate its performance against their competition. The company's financial performance will thus be compared against that of its main rival, SABMiller, to establish its competitiveness.

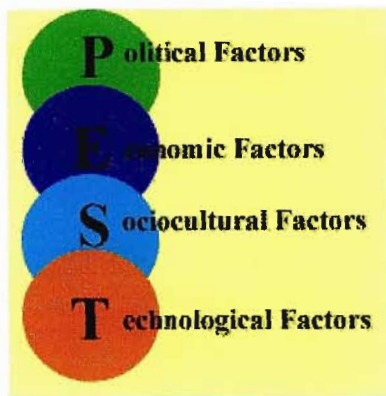
Further on, for a company to be able to respond effectively to its environment, and hence, ensure it maintains competitiveness, it needs to know its environment as well as its industry. Also, it is difficult to assess one's SWOT without doing an environmental analysis. An environmental analysis will thus be conducted, to assess

the environment in which NBL is operating. An industry analysis will also be conducted, using the Porter's five model.

This chapter will give a brief overview of the various tools that will be used to analyze NBL's performance. The next chapter will look at the actual analysis.

## 4.2 Environmental Analysis (PEST)

**Figure 4.1: PEST**



Source: [http://www.marketingteacher.com/Lessons/lesson\\_PEST.htm](http://www.marketingteacher.com/Lessons/lesson_PEST.htm)

The wider environment in which an organization operates has an impact on the organization and the industry. These forces should be recognized and understood, as they provide organizations with opportunities and threats.

### *Political factors*

The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. The laws and regulations are often restrictive and tend to reduce the potential profits of firms (such as antitrust laws, tax programs and fair-trade decisions). As Pearce and Robinson (2003) say however, some political actions are designed to benefit and protect firms (for example, patent laws and government subsidies). Hence, political factors may either limit or benefit the firms they influence.

### *Economic factors*

“Economic factors concern the nature and direction of the economy in which a firm operates” (Pearce and Robinson, 2003:58). Organizations need to monitor the following factors that impact either their costs or their ability to sell; interest rates, inflation rates, exchange rates, the general availability of credit, the level of disposable income, the propensity of people to spend, and the growth rate of the economy.

### *Socio-cultural factors*

“An organization’s outputs are only valuable if people or organizations find them sufficiently useful that they will purchase them” (Williamson et al. 2004:86). There are thus various societal factors that affect the demand for goods and services that organizations need to be aware of. These are the people’s attitudes, beliefs, values, opinions and lifestyles. As these factors change, so does the demand for various types of products and services.

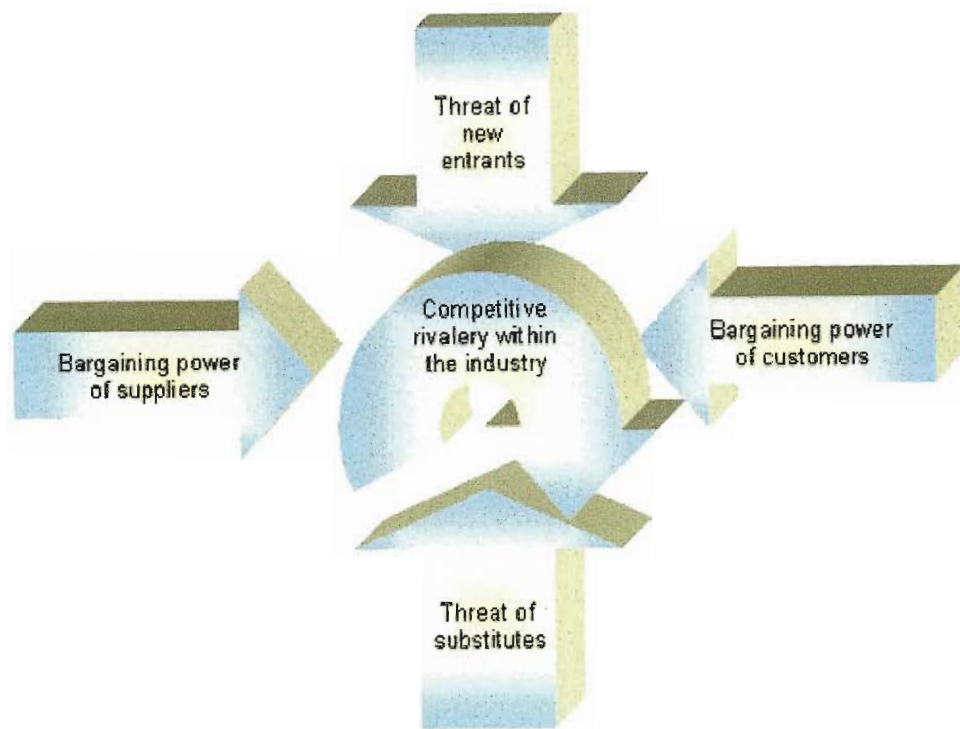
### *Technological*

Technological breakthroughs can create new industries, which might prove a threat to existing organizations whose products or services might become obsolete. In order to avoid this, firms need to be aware of technological changes in the industry that might affect their business. To be at an advantage, organizations can be the ones to drive or promote the innovations.

## **4.3 Industry Analysis (Porter’s Five Forces Model)**

As Williamson et al (2004:80) put it, “a key concept in Porter’s five model is the view that some industries are attractive and others are less attractive”. A company’s ability to identify industry attractiveness is thus important. The industry can be characterized and evaluated by looking at and analyzing the following five forces;

**Figure 4.2: Porter's five forces**



Source: <http://www.themanager.org/Models/p5f.htm>

#### *The threat of substitute products*

If a product of an industry can be substituted by that of another, consumers of the product can easily switch to a product in the other industry. Substitute products are a strong threat when

- They offer a similar level of benefits at proximate prices
- The consumer will not incur switching costs in moving between products
- The consumer is price sensitive.

#### *The threat of new entrants*

When industry entrance and exit is relatively easy, industries are described as contestable (with cutthroat competition). These situations occur when entry is associated with low sunk costs. If, for example, the assets required for entry to an industry can be used for other purposes, then the cost of exit can be said to be low. In these cases, the threat of new entrants is high. If assets required were unique,



however, new entrants would hesitate to enter the industry. Other factors that can limit the threat of new entry are:

- Existing loyalty to major brands
- Incentives for using a particular buyer (such as frequent shopper programs)
- High fixed costs
- Scarcity of resources
- High costs of switching companies
- Government restrictions or legislation.

#### *The power of buyers (Bargaining power of customers)*

When buyers in an industry have power, they can negotiate prices down and reduce industry profitability. This often occurs when there are a small number of buyers in an industry, when switching to another product is simple and when customers are price sensitive.

#### *The power of suppliers (Bargaining power of suppliers)*

This is how much pressure suppliers can place on a business. If one supplier has a large enough impact to affect a company's margins and volumes, then they hold substantial power.

#### *Competitive rivalry within the industry*

This refers to the intensity of competition between firms in an industry. If the industry is highly competitive, companies earn low returns because the cost of competition is high. A highly competitive market might result from (Pearce and Robinson, 2003):

- Many players of about the same size, no dominant firm.
- Little differentiation between competitors' products and services, and no switching costs.
- A mature industry with very little growth. Companies can only grow by stealing customers away from competitors.
- Fixed costs are high or the product is perishable, creating strong temptation to cut prices.
- Exit barriers are high.

- The rivals are diverse in strategies and origin and thus have different ideas about how to compete. As a result, they continually run head-on into each other in the process.

#### **4.4 The SWOT analysis**

SWOT, which is the sizing up of a firm's resource strengths and weaknesses and its external opportunities and threats, "provides a good overview of whether a firm's business position is fundamentally healthy or unhealthy" (Thompson et al. 2005:89). Thompson et al. (2005:89) further added that the SWOT analysis is grounded in the basic principle that "strategy-making efforts must aim at producing a good fit between a company's resource capability (reflected by a balance of resource strengths and weaknesses) and its external situation (reflected by industry competitive conditions, the company's own market opportunities, and specific external threats to the company's profitability and market standing)". Hence, good understanding of a company's resource capabilities and deficiencies, its market opportunities, and the external threats to its future well-being is fundamental to excellent strategizing.

SWOT analysis helps a company decide on how its strategy can be matched to both its resource capabilities and its market opportunities. It also helps identify which particular resource weaknesses the company should correct, and which particular external threats to guard against.

**Figure 4.3: SWOT**



Source: [http://www.marketingteacher.com/Lessons/lesson\\_swot.htm](http://www.marketingteacher.com/Lessons/lesson_swot.htm)

**SWOT analysis needs to provide/provoke answers to the following questions:**

Will the current strengths matter as much in the future?

Are there resource gaps that need to be filled?

Do new types of competitive capabilities need to be put in place?

Which resources and capabilities need to be given greater emphasis and which merit lesser emphasis?

#### **4.5 Competitive strength assessment**

One of the ways to determine how strongly a company holds its competitive position against its rivals is to assess whether the company is stronger or weaker than close rivals on the industry success factors.

According to Thompson et al. (2005), this process has 4 steps.

Step 1 is to make a list of the industry's key success factors and the most telling measures of competitive strength or weakness.

Step 2 is to rate the firm and its rivals on each factor.

Step 3 is to sum the individual strength rating to get an overall measure of competitive strength for each competitor.

Step 4 is to draw conclusions about the size and extent of the company's net competitive advantage or disadvantage based on the strength assessment and to take

specific note of areas where the company's competitive position is strongest and weakest.

Competitive strength assessment provides useful conclusions about a company's competitive situation, with the rating showing how a company compares against rivals, factor-by-factor or capability-by-capability. This reveals where the company is at its strongest and weakest, and against whom.

As Thompson et al. (2005:111) say, "knowing where a company is competitively strong and where it is weak in comparison to specific rivals is valuable in deciding on specific actions to strengthen its long-term competitive position". A company should then try to leverage the areas where it scores higher than rivals, which are its competitive strengths, turning them into a competitive advantage. On the other hand, it should take strategic actions to protect against the areas where it scores below the rivals, which are its competitive weaknesses. In a situation where the company possesses important competitive strengths where rivals are weak, the company should consider offensive moves to exploit rivals' competitive weaknesses.

#### **4.6 Financial analysis**

"The relationship between strategic performance and financial analysis is most important" (Luffman et al. 2000:78). The analysis of an organizational performance through its reported financial statements provides evidence of total organizational effectiveness. This is normally measured against either its previous performance, or that of similar organizations. The acquisition and management of financial resources indicates the efficiency and effectiveness of the finance function.

Financial analysis also assesses the financial health of the organization. It also indicates the degree of risk associated with the organization as well as its returns to owners.

The most appropriate statements, which often provide sufficient data for the analysis of performance, are the profit and loss accounts and the balance sheets (Luffman et al. 2000).

The balance sheet of a company shows the economic state of a company in a standard form. It gives a 'true and fair view' of the company's financial position at a particular point in time.

The Profit and Loss account firstly measures the size of the profit (the earnings) for the trading period, and secondly, indicates which factors have caused profits to rise or fall.

Financial ratios are used to determine the company's performance or to compare different companies with each other (using the balance sheet and Profit and Loss account). Financial information is obtained from each company and used for comparison. Financial ratios are useful in comparing companies of different sizes as they eliminate the size problem. The size effectively divides out and one then deals with percentage, multiples or time periods (Ross et al. 2001:52).

The following are some common ratios;

- Profitability (Is the business profitable?)

Profitability ratios are intended to measure how efficiently the firm uses its assets and manages its operations. Thus, the ratios are used to indicate how well the owners of the company have fared, how productive the company's investments in assets have been with respect to profit and how productive the net assets have been.

- Trading (Is the trading position satisfactory?)

When examining a firm's trading position, analysis is designed to show what sort of returns are being made for a given sales level or investment in assets (Luffman et al. 2000). There are various standard ratios that can be calculated in this area of analysis.

- Gearing (Is the business properly funded and using those funds wisely?)

How a firm finances itself can have serious implications for the health of a company. There are two sources of long-term funding for any business, loan capital and issued share capital. The relationship between the two is termed as 'gearing'.

- Liquidity

Liquidity ratios provide information about a firm's ability to meet its short term financial obligations. These ratios however have to be viewed in terms of industries as liquidity standards vary from industry to industry. It depends upon when the final accounts are presented. Firms with seasonal earnings for example will exhibit quite differing degrees of liquidity throughout the year.

- Shareholder ratios (Are shareholders earning satisfactory returns?)

There are a number of ratios that attempt to demonstrate how well shareholders are fairing in terms of earnings and assets in relation to their investment.

#### **4.7 Summary**

The main focus of this chapter was to identify various tools that would help in analyzing Namibia Breweries Limited's competitiveness, as this is what forms the basis of this research. The tools identified will be used to assess the strategic position of the company at present. Also, the company will be compared with its main rival SABMiller to see how it fares towards its competition.

The next chapter will look at the actual analysis.

## **CHAPTER 5: COMPANY ANALYSIS**

### **5.1 Introduction**

Chapter 4 identified the various tools to be used in the effort of analyzing NBL's competitiveness. The following tools have been identified: the PEST analysis, the SWOT analysis, the Porter's Five Forces model, the Competitive Strength analysis, and the financial analysis. This chapter will do the analysis using the tools identified, based on the information obtained from the company.

### **5.2 PEST Analysis**

#### *Political*

Namibia enjoys political stability and a multi-party system is in place. The country gained independence in 1990 after a liberation struggle with South Africa lasting 23 years. Through its policy of reconciliation, Namibia has demonstrated that a peaceful path from conflict to co-operation is possible.

Namibia has no national minimum wage but trade unions manage to negotiate wage agreements when situations arise.

NBL faces severe competition from SAB and the Namibian government is putting together a competition policy framework for regulation and monitoring. These would help prevent unfair competition from SAB, which is of overwhelming size. The Namibian government also accuses SAB of trying to take over the Southern African region and has so far gone to extreme measures to prevent SAB from opening a brewery in Namibia. In this process, the government had been accused of using unfair business practices, according to the regulations of SACU.

On another front, NBL is accusing SAB of dumping its products on the Namibian market.

### *Economic factors*

The country has a high unemployment rate of 35%. So far the government has been unable to abate the rate of unemployment, and this will continue to erode the spending power of consumers. Also, the continued inability of government to create jobs for school leavers, leading to high unemployment levels among the key 18 to 24 year old male consumer population, will also corrode the spending power of this segment.

Namibia is a lower middle-income country, and low-income earners constitute a bigger portion of the community. This is because, although most Namibians are economically active in one form or another, the bulk of this activity is in the informal sector, primarily subsistence agriculture (about 50% of population) ([http://www.aneki.com/economy/Namibia\\_economy.html](http://www.aneki.com/economy/Namibia_economy.html)). Consequently, the majority of the population is price sensitive.

As a result, NBL faces limited real volume growth opportunities in its local beer market. This is due to the company's premium product, which is too costly for the local consumer.

In 2004, inflation averaged about 4.2 percent, and real growth rate was 3.5%. This is a drop from 7.3 percent in 2003. Interest rates have seen a 4% drop during 2003, freeing up a significant disposable income for Namibian consumers. The trend is expected to continue as interest rates and inflation continue to reduce, contributing to an improvement in disposable income levels, which will act as a catalyst for increased consumer spending.

As a member of the Common Monetary Area (CMA), Namibia's currency, the Namibian dollar (NAD), is linked to and ranks on par with the South African Rand (ZAR), which is expected to prevail for some time to come. The past few months have seen a very strong ZAR and the government expects the strength of the Namibian dollar to continue for the medium-term, which is likely to continue to put pressure on exporters and subsequently on public revenue. In particular, these might put pressure on NBL's pricing competition, as the company's products might then be expensive in the export market.



Further, Namibia's development is hampered by a scarcity of skilled labour. Despite major efforts to increase the manufacturing base through various policies, skill shortages remain an issue in Namibia. The estimated adult literacy rate of Namibians was relatively high at 81% as at 2001. However, although this is the estimated national literacy rate, it is important to note that the number of Namibians who are functionally literate and have the skills that the labour market needs is significantly fewer. Namibia has more than 200,000 skilled workers, as well as a small, well-trained professional and managerial class. Ten per cent of all positions are not occupied by people with the right skills or remain unfilled (<http://www.oecd.org/dataoecd/58/28/1826046.pdf>).

#### *Socio-cultural factors*

AIDS-related illnesses and deaths to employees will affect a firm by both increasing expenditures and reducing revenues. Expenditures are increased for health care costs, burial fees and training and recruitment of replacement employees. Revenues may be decreased because of absenteeism due to illness or attendance at funerals and time spent on training new employees. Labor turnover can lead to a less experienced labor force that is less productive.

The pandemic's impact on the disposable income of the part of the population mostly affected (LSM 1 to 6 consumers) puts pressure on category margins of NBL. Also, if the country continues to suffer economically and socially as said above, it is clear that it would have a severe impact on the company's revenues.

In poorly managed situations, the HIV-related costs to companies can be high. However, with proactive management these costs can be mitigated through effective prevention and management strategies. NBL has embarked on various HIV/AIDS programs to curb the impact of the disease. These programs include prevention, education, counselling, and effective management of the risks associated with the disease.

#### *Technological*

The company's product, based on the Reinheitsgebot, focuses on the traditional consumer (The consumer that the original product- brewed according to the

Reinheitsgebot- appeals to). The company needs to embark upon research in order to identify what would appeal to the modern consumer.

Generally, the company has done well in the introduction of new products to meet the discerning needs of consumers, and to keep up with industry trends.

### **5.3 Porter's Five Forces model**

#### *Threat of substitute products*

International brands already have a distinct competitive advantage in the sub region driven by strong brand awareness with consumers. With their availability, consumers can simply shift to consumption of those brands they identify with.

Also, consumers also can easily switch to SAB's cheaper products without incurring any switching cost.

#### *Rivalry*

The number of competitors in the industry globally is quite high. Locally, however, NBL faces competition from SAB which, with their cheaper products, threatens NBL's market share due to the highly price sensitive nature of the Namibian consumers.

In the South African market where NBL has 35% presence, the company faces competition from various big companies due to the potential strong growth of the premium beer market. As a consequence, this lead to a fragmentation of the market.

In the carbonated soft drinks category, NBL faces an extremely competitive environment. The main competitor in this arena is Coca-Cola, with its wide range of products.

#### *Bargaining power of consumers*

Although the company has a monopoly in the market, consumers are prone to shift to SAB's cheaper product, due to their price sensitive nature. This gives them a certain amount of power.

### *New entrants*

A recent Customer Value Management survey has revealed that NBL is the preferred supplier in the beverage industry in Namibia. The company, however, is faced with ever-increasing competition from strong global players.

### *Bargaining power of Suppliers*

NBL has close interaction and sound relations with key suppliers.

## **5.4 SWOT analysis**

This is based on information obtained from documents and reports available from the company (see in references).

### *Strengths*

- Uncompromising quality based on adherence to the Reinheitsgebot purity law, which ensures a place in the premium segment of the beer market
- The consistent premium quality of its products has earned the recognition of the brewing industry and loyal confidence in its products
- Strong equity of brands
- Strong leadership in the local market (75% of the market)
- Strong appeal to the traditional beer drinking consumer (due to the Reinheitsgebot)
- Excellent stakeholder relationships
- Visionary investments in structural capacity to service a broad spectrum of markets and consumers
- Strong presence in the growing premium beer segment (35 % of the South African market)
- Strong balance sheet
- Vigilant marketing and sales execution
- Due to the BJV, the company is able to exploit economies of scale.

### *Weaknesses*

- Premium products are not suitable for the domestic market due to poor buying power of local consumers
- Internal Management changes (in the last couple of years)
- Brand not very strong globally
- Lack of strategic development
- High production costs and operating expenses

### *Opportunities*

- Possible growth in export markets
- Great opportunities exist for premium brands and FAD's (Flavored Alcoholic Drinks) as a new class of premium beer drinkers with different consumption patterns emerges.
- The South African premium beer segment continues to grow (fastest growing in the South African liquor industry).
- The JV with Heineken and Diageo positioned the company to become a truly international business, gaining access to a bigger premium brand portfolio, improving production capacity utilisation and benchmarking against industry specific and best practice knowledge and expertise.
- JV also accelerated growth in the premium sector of the market through joint distribution, sales and marketing in SA
- Heineken will bring its vast experience and knowledge in the beer sector across the globe and in Africa
- Namibia is part of various trade agreements, and could exploit these to extend its global presence, especially to the US, where the company has no footing yet.

### *Threats*

- Limited real volume growth opportunities in the local beer market.
- Strong growth in South Africa's potential premium beer market has resulted in a higher number of market players and thus increased competition.
- The strong performance of the Namibian Dollar against other major currencies diminishes external competitiveness, which places the company's export sales volumes and earnings under pressure.

- The introduction of high import duties and the imposition of complex importation procedures by the Angolan authorities in February 2003 had a negative effect on export volumes to that country
- Fierce competition leading to continued cannibalization of the local mainstream market share
- Macro economic factors such as the impact of the HIV/AIDS pandemic on the disposable incomes of LSM one to six consumers puts pressure on category margins
- High unemployment levels also contribute in eroding the already limited spending power of consumers
- Consolidation in the industry which threatens the continued existence of small brewers
- The Namibian consumers are price sensitive, making it difficult for NBL to capture the domestic market with the premium brand, which is the company's stronghold, as well as to compete with SAB's low priced brands.

### **5.5 Competitive Strength assessment**

NBL's main rival in both the local market and the South African market is SABMiller. A comparison will thus be done between the two companies to determine NBL's competitiveness. This is based on information obtained from documents and reports available (on both companies).

**Table 5.1: Competitive Strength Assessment**

	<b>NBL</b>	<b>SAB</b>
Quality	10	8
Product Performance	5	10
Financial resources	4	9
Relative cost position	3	9
Technological skills	8	7
Global presence	3	8
Brand Image	5	10
Pricing	2	9
Distribution network	4	10
	44	80

From the above, it is clear that NBL faces serious competition from a giant in the industry. NBL is relatively small compared to SABMiller. SABMiller has very strong operations in South Africa, but also in Europe, the US and Asia. The recent Joint Venture however, is bound to improve NBL's representation in the global market, although the company will be faced with the challenge of building its brand to keep up with the giants Heineken (which has the widest global presence of all the international brewers, operating in over 170 countries) and Diageo (which is the world's leading premium drinks business with an outstanding collection of alcohol brands across spirits, wine and beer categories).

NBL's product is known to be high in quality and has received acceptance all over the world because it is known for its purity (using the Reinheitsgebot).

SABMiller is known to have the most efficient brewing and distribution operations in the industry. With its global footprint, strong portfolio of brands and spread of operations in both mature and developing markets SABMiller is well placed to continue its growth.

NBL’s product is of premium pricing and fares very poorly compared to SABMiller’s low prices, specifically in the domestic market where the consumers are extremely price sensitive.

## 5.6 Financial Analysis

**Table 5.2: Financial Ratios**

### PROFITABILITY RATIOS

	FYE 04	FYE 03	FYE02	FYE 01	FYE 00
ROE ( NBL)	11.5	6.6	18.6	48.9	32
ROE ( SABMiller)	15	10.4	15.2	18.5	19.7
ROTA (NBL)	6.8	12.4	12.4	16.8	20.4
ROTA ( SABMiller)	11.4%	7.6%	12.4%	15.9%	19.3%
Operating margin (NBL)	2.9	8.0	9.7	13.5	14.6
Operating margin(SABMiller)	12.2	11.1	16.1	16.7	14.6

### GEARING AND LIQUIDITY RATIOS

Debt ratio (NBL)	28	18	25	11	24
Debt ratio( SABMiller)	26.9	28.8	27	23.9	13.7



Interest cover (NBL)	2.9	7	5.5	7.5	7.6
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Interest cover (SABMiller)	8.2	6.1	7.2	13	9.9
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# **FINANCIAL GEARING**

Current Ratio (NBL)	2.3	1.9	1.6	1.5	1.5
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Current ratio (SABMiller)	0.75	0.77	0.85	0.69	0.71
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# **SHAREHOLDERS RATIOS**

EPS (NBL- N\$)	18.8	11	29.5	61.3	29.8
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EPS ( SABMiller-c)	54.1	27.5	40.7	50.4	64.3
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DPS (NBL)	22	8.4	11.5	12.3	11.9
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Dividend cover (NBL- times)	0.9	1.3	2.6	5	2.5
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Source: NBL Annual Reports (2002, 2003, 2004) and SAB Annual Reports (2002, 2003, 2004)

- **Profitability ratios**

# ***ROE (Return On Equity)***

The ROE measures the return earned on the owner’s investment, and is a combination of 3 other measures; profit margin, total asset turnover and financial leverage multiplier.

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NBL's ROE in 2004 (11.5%) seems to be low when compared to SABMiller (15%), and although it is recovering from the previous year (2003), it is still at a low level when compared to the ROE of 2002, 2001 and 2000. This increase in ROE of 2004 when compared with 2003 is mainly due to the increase of the gearing ratio and the once off payment of dividends. The debt to equity ratio has increased from 18% in the previous year to 30% during the year 2004. The additional funding has been raised to optimize the capital structure of the Group, catering for the establishment of the JV brewing facility and improvements in the brewing and bottling process.

As said above, this figure is low when compared with 2002, 2001 and 2000. This decline is due to the shrinking of the company's net profit margin over 5 years. The net profit margin, however, slightly improved from 2003 to 2004 because of the excellent performance of sales of the beers in South Africa and the benefit of a lower effective tax rate.

#### ***ROTA (Return On Total Assets) / ROI (Return On Investments)***

This figure measures the overall effectiveness of management in generating profits with its available assets. The higher the firm's ROI, the better.

NBL's ROTA is declining, from 12.4% in 2003 to 6.8% in 2004. This decline is primarily due to the decline of the operating profit margin. Beers sales are seasonal and the last reporting period span was over two low seasons, which has distorted the operating margin. In addition, there was a high level of maintenance and capital investment this year. These factors have worsened the ratio.

Accept for the year 2004, NBL was at the same level with its main competitor, SAB Miller, in the past.

- **Gearing and solvency ratios**

NBL has increased its gearing level in 2004. The debt to equity ratio has increased from 18% in the previous year to 30% during the year 2004. As said above, the need to set up the brewing facility to cater for the JV and improve the brewing and bottling process had been the main driver of this increase in gearing. Note that over 5 years, the gearing ratio has declined, from 94% in 2000 to 68% in 2004, this means that the

company is mid gearing now. In general, one can say that the company has always been low geared compared to SABMiller, but the new capital structure makes it at a similar level with its main competitor.

NBL's interest cover has drastically declined by an average of 60% from 2003 to 2004. This can be a sign that the company could have difficulty in the future to cover its fixed financial obligations in a bad season of sales. This can also be observed in the company's financial gearing ratios, which has increased from 25.2% to 40.0%. This low level of interest cover can be explained, as said earlier, by the operating profit figure, which has been distorted by the negative effect of the new reporting period and by the once-off costs relating to various capital investment initiatives undertaken on the operating profit. This, coupled with the increase of long-term debt, has increased the fixed financial costs.

The company solvency has improved over the years, increasing by 21% in 2004. This shows that the company is improving its ability to satisfy its short-term obligations as they become due. SABMiller's current ratio is lower than NBL.

- **Shareholders ratios**

The EPS of 2004 has increased significantly compared with 2003, but over 5 years the EPS has decreased by a compound rate of 10.9% and, compared with its competitors whose EPS had decreased by a compound growth of 4.2%, NBL seems to be not doing as well as SABMiller. This is however difficult to judge since SABMiller has many more business units than NBL.

The dividend policy of NBL has changed for the year 2004, and has decreased to 0.9 in 2004 from 1.3 in 2003. The company has decided to pay out a special once-off dividend because of the strong cash generation exhibited by the company's finance and the strategy of optimizing the company's gearing, and thereby improving the ROE. A high level of dividend is good for the company, since the dividend policy has a signaling effect on the market by depicting the group confidence on the healthy capital position of the company.

## **5.7 Summary**

This chapter covered the analysis of the company. An environmental analysis was conducted, in order to assess the environment in which NBL is operating. An industry analysis was also conducted, using the Porter's five model. The company strengths and weaknesses, as well as its opportunities and threats have been identified.

Further, the company's performance was compared against that of its main rival, SABMiller, to establish its competitiveness. The following tools were used; financial analysis, and the competitive strength assessment. It was determined that the company's main competitor, SABMiller, is a giant in the industry and NBL thus faces great challenges.

The final chapter will provide recommendations and suggestions on how the company can ensure they remain competitive despite the challenges they face.

## **CHAPTER 6: RECOMMENDATIONS AND CONCLUSIONS**

### **6.1 Introduction**

This chapter covers recommendations on how the company can improve its competitiveness. Using the proposed model, the study will make suggestions as to what the company and in particular the leadership, could do to ensure they maintain a good strategic position.

Looking at how NBL fares in comparison with its main competitor SABMiller, as seen in chapter 5, it is clear that the company has a lot to do to ensure that they maintain their competitiveness in the industry, both locally and in the export markets. There is a lot that the company needs to do to ensure that they have the ability to deal with the challenges brought about by globalisation. The model adopted in chapter 2, by Hitt et al. (2003) will be used to determine what the leadership of the company could do in their efforts to improve their competitiveness. Other areas of improvement will also be identified.

### **6.2 Strategic direction**

Choosing the future is an important element for creating and sustaining a competitive advantage. A strategic vision is the guiding theme that articulates an organization's intentions for the future. It is thus a clear articulation of what the leader's aspirations are for the future success of the company.

The company (NBL) has recently changed its vision. Management should ensure that all the employees are aware of the new vision, and how they individually contribute to the achievement of this vision. Only then can management be sure that individual members will contribute whatever they are supposed to, for the successful implementation of the company's strategies.

Leaders need to inspire their followers to high levels of achievement. They can do this by showing them how their work contributes to worthwhile ends as it appeals to employees' most fundamental needs, the need to be important, to make a difference,

to feel useful and to be part of a successful and worthwhile venture. Employees thus need to feel part of the direction the organization is taking.

### **6.3 Core competencies**

NBL faces severe competition from SABMiller. In order to be successful, the company should ensure they have clear competencies that cannot be copied. They should continuously look for sources of competitive edge, which can neither be duplicated nor matched.

The task is for NBL to take another look at their target consumer and build an image around the brand with which the identified consumer would like to associate. What the NBL management needs to create and portray is a feature that no competitors can match, at least in the consumers' eyes and minds.

The company's core competency at present lies in their adherence to the Reinheitsgebot purity law, which ensures the purity and quality of their product. The Reinheitsgebot angle seems to appeal mostly to the traditional beer drinking generation. While the traditional consumer should be maintained, NBL must continuously seek ways to lure the modern drinker.

### **6.4 Human Capital**

Employees are an important resource in every company. Core competencies cannot be effectively developed or exploited without appropriate human capital.

For a company to gain full competitive benefits from its human capital in this global economy, it needs to significantly invest in its human resource function. Also, employee retention should be every company's aim as it is very costly to replace employees. NBL invests a lot in their employees (with regard to training) and losing employees to other companies can have negative ramifications for the company as well as the costs associated with replacing employees.

Development programs help build skills and facilitate communication among employees; hence NBL should continue to invest in these programs. Also, the company operates in a rapidly changing business environment and it is essential for employees to acquire skills that are essential to the organization's primary operations, core competencies, and customers. They also help instil a common set of core values, and promote cohesion among employees.

The company has lost a lot of top management in the past few years. The impact of this is that employee loyalty is affected, which affects their contribution to the company. It is thus important for the company to put measures in place that would motivated their employees, and in particular their top managers, to stay with the company. An example is for the company to use various incentives in order to retain their employees (both top and lower level).

## **6.5 Culture**

Culture can be a strong source of competitive advantage. Internal culture is a competitive advantage that is difficult to duplicate. Change is a constant and companies that make change a part of their culture in the organization, are bound to have an effective culture.

Because culture provides a sense of shared meanings and morals, it keeps people together in organizations. It influences the way things are done in the organization and it is the responsibility of the leadership to ensure that they communicate the organization's culture to the employees.

NBL has a very strong internal culture as it is rooted in its history. Its Reinheitsgebot is unique to the organization and affect the way things are done. It is a source of competitive advantage for the company as it is unique and hard to replicate.

It is imperative for the organization that all employees understand the importance of the company's culture (so as to adhere to it) and in particular the importance of oneness in the organization. Also, because of the volatility of the environment in

which NBL operates, change should be part of its culture. Management should thus work on creating an awareness of the culture as well as an adherence to it.

## **6.6 Ethics**

Ethics are vital in shaping decision-making processes and ought to be an integral part of the firm's culture.

The company (NBL) has an internal code of ethics and values. Management should promote and ensure that everybody in the company abides by the code and is committed to promoting the company's ethical and moral standards.

“Duplicity and two sets of rules, one for the leaders and one for everyone else, is never acceptable. If leaders preach a particular set of ethics and values, then the leadership must hold itself to the highest ethical and moral standards in order to lead by example, and to inspire. To do otherwise will result in a loss of both credibility and trust. And without these there is no ability to lead” (Becker, <http://198.231.69.12/papers/nssc/nssc6/becker.pdf> ).

As Becker (<http://198.231.69.12/papers/nssc/nssc6/becker.pdf> ) clearly indicates, it is important that the leaders themselves set the example and promote high ethics within the company. The recent change in leadership at the company poses a lot of questions among the employees, leading to insecurity. Management needs to address this, and ensure that it does not influence the workers negatively, leading to low morale.

## **6.7 Organizational controls**

Controls are very important as they provide the parameters through which strategies are to be implemented. NBL has implemented the Balanced Scorecard to help control its overall performance.

Although the company has in fact done the exercise, it is clear that so far not much has been done since the implementation of the Balanced Scorecard (BSC) in 2003.

The BSC in itself is a cultural change initiative, creating a culture of continual focus on strategy formulation, measurement and revision. As this was not done in NBL in the past, the BSC enables the company to create this new culture

Only if management encourages correct implementation of the BSC can they be sure that they are able to ensure that they achieve their desired outcomes, and hence exploit its competitive advantages.

## **6.8 Other Recommendations**

- As the realities of globalisation spread to Southern Africa, NBL needs to begin to revamp its operations, as it cannot continuously rely on government patronage, as has been the case so far.
- On the home front, the company should utilize home advantage to beat SAB. It should work on capturing a greater share of the domestic market where SAB is a big threat due to the price sensitive nature of the market.
- It should also increase marketing efforts to make market aware of NBL's strong product, premium beer
- Cost-cutting measures to ensure better return on investments, growth and brand building equity are essential. Measures will have to be taken to bring the costs down.

NBL should continue to identify cost saving opportunities. It should also continue to find ways to reduce production costs and operating expenses.

- The company should continue to find opportunities for growth as prospects for growth in the local market is limited due to the competitive nature of the market. Export markets outside South Africa remain a challenge. The group should continue to investigate niche market opportunities, specifically in the SAB dominated SADC region.



- A market trend is that the import beer category worldwide continues to grow at a double-digit rate. Imported beer consumers seek variety from around the globe. NBL should therefore establish how they could tap into this market and provide the variety of products that the import beer consumer seeks. The company already has strength in that they have a variety of products and can cater for a discerning consumer base.
- The NBL portfolio needs greater exposure to the export consumer. The main challenge for NBL is to project its reputation to a larger regional audience while dealing with the entrance of internationally established brands into the market, in particular the South African market. Marketing in the export market is therefore essential.
- Also, due to growing competition in the SA premium beer market where NBL has a big stake, it is recommended that the company work on building their brand equity to ensure that they remain on top. It should execute strategies to build brand equity.
- In comparison to other brands in the brandhouse stable, the NBL portfolio appears to have the weakest brand at present. The company has a tough challenge in funding the building of its brand equity to the levels of its distribution peers. Management should embark upon measures to build their brand equity in order for NBL to draw full synergies from the brandhouse JV.
- The company is one of the main employers in Namibia and should stay dedicated to playing a meaningful role in the economy and retaining its reputation as a major contributor to Namibia's national wealth.

## **6.9 Conclusion**

In the new competitive landscape, firms exist in highly unstable and often chaotic environments. This research has attempted to understand the environment these firms are facing and how to effectively navigate through it.

Further, the research identifies what the companies in the 21<sup>st</sup> century landscape need to do in order to maintain competitiveness amidst various challenges brought about by this very competitive landscape. Leadership has been identified as being at the core of this, as a company's leaders are crucial in the effective execution of strategies. Hitt, Ireland, and Hoskisson have come with a model that depicts the components that are essential for leaders in the 21<sup>st</sup> century landscape to be effective in ensuring that their firms achieve competitive advantage over their competition regardless of the challenges they face.

In the review of the literature, strategy as the plan to be implemented in organizations has been explained. The role of leadership in strategy has also been considered. The 21<sup>st</sup> century landscape was then explored, as well as the challenges deriving from it. The developing world and how it is affected by globalisation (as one of the features of the 21<sup>st</sup> century) was looked at.

The difference between managers and leaders has been at the core of many discussions on leadership and although it is not the focus of this study, it is difficult to talk about leadership without talking about management. A brief overview on this has been done, before leadership has been looked at extensively. Strategic leadership as the focus of this study was widely explored, before the model for strategic leadership as developed by Hitt, Ireland, and Hoskisson was explained.

NBL, a brewery company in Namibia has been used as a case study in this paper. It was looked at how the company responds to the challenges brought about by the 21<sup>st</sup> century landscape.

An analysis has been done using various tools to determine how competitive NBL is amidst the challenges it faces in this new landscape. A comparison was done with its main rival SAB, using documents and reports available.

It is clear that although the company (NBL) is a major strategic player in Namibia, it fares poorly when compared to its main rival. This is of great concern.

The study has identified various aspects that the company needs to look at in order to ensure that they are able to withstand challenges that might face them in this competitive landscape, and in particular from their main rival SAB, which is threatening to monopolize the SADC region. NBL management therefore needs to aggressively embark upon the implementation of measures, and in particular the recommended model by Hitt et al. (2003), to maintain competitiveness.

This paper has also ventured to gain understanding of the 21<sup>st</sup> century landscape, it is, however, clear that much more research is called for to understand this unpredictable environment as well as the leadership capabilities required for success in this new competitive landscape.

In answering the research problem as to what extend strategic leadership can enable NBL to deal effectively with the challenges of the globalized world, the research paper has established that this increasingly fast-moving and competitive environment demands more leadership. It is thus apparent that strategic leadership is critical to achieving individual and organizational effectiveness and success in today's rapidly changing, increasingly globalized business environment.

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